


Pushing the Envelope for Transnational Political Advocacy:
Unconventional Channels in EU-DPRK Relations

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Abstract

North Korea, which is the last purely communist and closed economy in the world, was experiencing a primitive and poor economy since the great famine happened in the mid 1990s. In regards to this problem, Pyongyang government was inevitably 'forced' to open it up, slightly deviated from 'juche' rationale and developed its market liberalization since the last few years, e.g. the establishment of two Special Economic Zone. Because of this kind of uncertainty, Kim Jong-il needed a clear and acceptable guideline which can direct its reform path towards a 'slow and incremental opening" of North Korea. Thus, a reform model is urgently needed and concurrently some ex-socialist countries in the Eastern Europe can provide some fruitful experiences for them to copy. In addition, there is an epistemic community in Europe called, the *Friedrich Naumann Foundation*, who organized an annual EU-DPRK Workshop since 2004 and invited numerous European economists who have worked in transition economies to exchange experiences with North Korean officials who are now responsible for economic modernization in the DPRK. They had a formal contact with North Korean official may provide 'knowledge-based' ideas or policy suggestion to them directly or indirectly. So, the central puzzling of my thesis is that how this channel being built and what this channel are helping and directing the policy reform in North Korea.

簡介

北韓是全球僅存的共產主義及封閉經濟國家。自九十年代中期以後，北韓因饑荒而導致嚴重的經濟衰退。有見及此，平壤政府因而被迫開放其經濟體系，且續漸偏離「主體思想型經濟」和開始發展其市場經濟特色，例如在新義州建立其新經濟特區等。

由於面對極嚴重的政策不確定，金正日政府需要一個既清晰又合乎北韓政治需要的指示，指導其發展出一種既慢且漸進式的經濟改革措施。因此，北韓政府近年不斷向外尋求新的經濟改革思維。

正因如此，在尋求的過程中，北韓政府發現單從中國或俄羅斯的改革經驗中借鏡並不能完全合乎北韓獨有的經濟結構和特色。所以，一些曾經歷從社會主義經濟過渡至市場經濟的東歐國家，他們的經濟思想和步驟，在北韓的領導人眼中遂變得更有參考價值。

在參考的過程中，一方面加強了北韓與歐洲國家官方渠道的合作，也強化了其非官方交流的管道。當中，有一名叫「瑙曼基金會」(Friedrich Naumann Foundation)的德國非政府組織，自零四年起多次舉辦歐洲與北韓的經濟合作交流會議和訪問團，而當中最具代表性的莫過於於零四年至零五年間在平壤舉辦的「歐洲與北韓經濟合作工作坊」。

在是次交流的會議上，「瑙曼基金會」邀請了二十多位來自不同歐洲國家的經濟學者和轉型經濟學專家，形成了一個類似「知識群體」(Epistemic Community)的雛型。透過不同的溝通渠道，他們把對東歐轉型經濟經驗的分析和意見轉達到負責經濟改革的北韓官員手上，從而改變他們的改革思想和藍圖。所以，就以上事件，本論文的分析對象主要是針對上述「學者對官員」的跨國家的學者群體，分析其形成的原因、凝聚力的來源、不同的溝通渠道和如何影響實質政策的結果。另外，本論文亦會嘗試推翻幾種對北韓經濟改革的誤解，例如認為中國是北韓改革的唯一參考對象和低估歐洲國家對北韓的影響力。

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Introduction

North Korea, Democratic People's Republic of Korea (DPRK), the last Communist and closed economy in the world, has experienced dreadful economic decline since the great famine in the mid 1990s. To solve this problem, Pyongyang government was forced to open up the national market and slightly deviated from the '*juche*' rationale. Since then, market liberalization has gradually sprouted, exemplified by the establishment of two Special Economic Zone. The country leader, Kim Jong-il, undoubtedly is in need of some grand guideline to realize a 'slow and incremental opening" of North Korea. Many external players, including the former socialist countries in the Eastern Europe, can and would like to provide advice to Pyongyang.

This research examines the networks of economists and experts emerging in the context of the current reforms in North Korea. The Friedrich Naumann Foundation (FNF), who organized an annual EU-DPRK Workshop since 2004 and invited numerous European economists who have worked in transition economies to exchange experiences with North Korean officials who are now responsible for economic modernization in the DPRK. They had a formal contact with North Korean official may provide 'knowledge-based' ideas or policy suggestion to them directly or indirectly. So, the central puzzling of my thesis is that how this channel being built and what this channel are helping and directing the policy reform in North Korea.

In general understanding on North Korea politics, viewed by the United States and South Korea through a political lens, the impression of political attitude and political aspiration in North Korea can be described as 'a hungry child knows no

politics’.¹ Before the NGOs came to North Korea, there was not much information released by the North Korean government and the world knows nothing inside North Korea. But, as the North Korea is gradually opened up since recent years, through the experience on humanitarian assistance and their lens on politics, the general image on North Korea is improving and more objective data and reliable information released by the government shaped and contributed to a more responsive regime as they have to take economic development and regime stability into consideration and therefore they decided to seek for possible support from the European counterparts.

1. Theoretical background

The research of this emerging and possible transnational political advocacy echoes/is a response to the new theoretical development in IR field. In classic IR theory, state was the predominant unit of study in international relations. All of the theories in international relations, including realism and liberalism, are exclusively focused on the action, reaction and interaction among states. But, the start of the 1990s was a turning point of the study in international relations, as applied constructivism into the study of international relations, state was no longer the only actor of focus in international relations. Other than states, the rise of Non-state actor (NSA) was one of the reasons why scholars tend to broaden the scope of study in international relations.

Under this paradigm, the traditional Westphalian nation-state is experiencing an erosion of power and sovereignty, and non-state actors are part of the cause. NSAs

¹ Snyder, Scott. 1998. The NGO Experience in North Korea. In L Gordon Flake and Scott Snyder. eds., *Paved With Good Intentions: NGO Experience in North Korea*. Westport, Connecticut, London: Praeger, p.3

have challenged nation-state borders and claims to sovereignty. Facilitated by Multinational Corporations (MNCs) are not always sympathetic to home-country's or host-country's national interests, but instead loyalty is given to the corporation's interests. Non-governmental Organizations (NGOs) are challenging the nation-state's sovereignty over internal matters through advocacy for societal issues, e.g. human rights and the environment globalization.²

The study of NSA arouses a heated academic debate in the last few years, especially about the unit of analysis in IR was transformed immensely. Scholars had extended their focus of study in the field of Non-Governmental Organizations (NGOs). NGOs, in this sense, represent the new agent of study as they're positionally different from government, financially independent, and without any government monitoring and censorship on their programs. The primary focuses on their works are on environmental issues, women's rights, human rights, and rural poverty.

Other than NGOs, transnational Organizations (TNOs) are also gaining academic and diplomatic recognition as they're increasing tremendously in terms of absolute numbers and global influence. The agenda of transnationalism, defined by Thomas Risse-Kappen, is regular interactions across national boundaries when at least one actor is a non-state agent or does not operate on behalf of a national government or an intergovernmental organization.³ So, it's widely believes that the rise of TNOs in recent decades was contributed by the growing numbers of issues which were not only affecting domestically, but also spreading to neighboring countries and even

² Rochester, Martin J. 2002. *Between Two Epochs: What's Ahead for America, the World, and Global Politics in the Twenty-First Century*. Upper Saddle River, NJ: Prentice Hall, p.2

³ Risse-Kappen, Thomas. 1995. *Bringing Transnational Relations Back in: Non-State Actors, Domestic Structures, and International Institutions*. Cambridge ; New York, NY, USA : Cambridge University Press, p.3

globally, such as environmental issues, trade issues, human rights protection, international security etc. Within this new study, expert group was one of the new units of analysis in this field.

World politics at the end of the twentieth century involves, alongside states, many nonstate actors that interact with each other, with states, and with international organizations.⁴ Within this relation, transnational networks are increasingly visible in global arena. Some involve economic actors and firms. Some are networks of scientists and experts whose professional ties and shared casual ideas underpin their efforts to influence policy.⁵ Others are network of activists, distinguishable largely by the centrality of principled ideas or values in motivating their formation.

Transnational Advocacy Networks (TANs) are significantly influencing domestic and international politics in recent years. By cooperating and collaborating actors in civil societies, states, and international organizations, they built networks and channels of access to the global system and shaped political outcome. In these networks, they're relatively strong in issues related to environment, human rights and women's rights. Through normative and value commitment, members of the advocacy networks are bounded by shared values, a common discourse, and dense exchanges of information and services.⁶ At the core of their objectives, TANs on one hand are proliferating and their goal is to change the behavior of states and of international organizations. Simultaneously, they also promote norm implementation, by pressuring target actors to adopt new policies, and by monitoring compliance with international

⁴ Keck, Margaret and Kathryn Sikkink. 1998. *Activists Beyond Borders: Advocacy Networks in International Politics*. Ithaca, N.Y.: Cornell University Press, p. 1

⁵ Ibid

⁶ Ibid, p. 2

standards.

Other than advocacy networks, expert group is another type of transnational actor which tries to shape state's policy. Expert group is a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue area.⁷ They are catching more and more attention in IR because as social constructivism provide knowledge as the means to power in the social reality. In the study of world politics, by having an authoritarian claim on knowledge, can exercise decisive power in the 'interaction game' of the construction of world politics.

Moreover, the article by Thomas Risse-Kappen in 1994 also stimulates the study of the function of the expert groups played in global affairs.⁸ He mentioned the traditional power-structure, realistic and structural approach is totally insufficient to explain the shift in belief and brought a revolutionary change of economic policy in the Gorbachev era. (from planned, controlled economy to market economy (*perestroika* and *glasnost*)) The major argument in his article is that the rise of some transnational expert groups in U.S. (economists and scientists) transfer their 'new thinking' to the bureaucracy in USSR (especially to Gorbachev) contributed to the Moscow government commit in promoting reform strategy. Therefore, this revolution in foreign policy in Soviet Union was more or less affected by the expert groups.

Therefore, the above case study provided by Thomas Risse-Kappen and the

⁷ Haas, Peter. 1997. ed., *Knowledge, Power, and International Policy Coordination*, Columbia, S.C.: University of South Carolina Press. p.3.

⁸ Risse-Kappen, Thomas. 1994. Ideas do not Float Freely: Transnational Coalitions, Domestic Structures, and the End of the Cold War. *International Organization* 48,2: 86

current economic crisis in North Korea stimulates my research curiosity as there may be some non-governmental forces which are providing ideation support and expertise assistance on North Korea in regards to the economic reform, as North Korea has a similar political and economic structure as the former Soviet Union. So, in referring to the case raised by the FNF, the action taken by this NGO and the expert groups, indeed, becomes the central field of study of this thesis.

2. Research questions

The main empirical questions this research is going to investigate are:

1. In the background of North Korea's general external relations: what has EU been providing advice and learning of experiences of economic reforms toward North Korea?
2. Except the influence via formal inter-governmental channels, are there other, mostly non-governmental forces, that also been applied by EU?
3. How to understand and explain the networks of experts initiated by the Friedrich Naumann Foundation and flows of ideas generated by such networks which has possibly affected North Korean leaders' thinking economic reforms?
4. How and why does the channels and policy inputs from the groups of scholars in the EU-DPRK Workshops in providing ideas or practical policy suggestions toward the North Korean official?

5. What are the practical policy significances of the non-state channels on the North Korea economic reform?

Other than empirical questions, this research is also going to resolve some of the theoretical puzzling are:

1. What are the pre-conditions of a successful expert group in shaping state' policy?
2. Can non-government organization (NGO) play an initiative and mobilizing role in the consolidation of the expert group?
3. How did ideas initiate by academic scholars transnationally diffuse to policy-makers in other countries and eventually shaped the policy-outcome?

3. Explanatory Variables and Hypothesis:

In my dissertation, as expert group is the object of my study, therefore, there are some of the variables which will affect the performance, momentum and policy influence of the community.

Variables of the level of influence of expert group:

1. **Consensus:** The influence of expert group depends on the extent to which the members agree on important issues in their field of study

2. **Density:** Transnational network tend to operate best when they are dense, with many actors, strong connections among groups in the network, and reliable information flows
3. **Resources:** There are various types of resources which affect the performance of the expert group, including economic (e.g. money, personnel), communication (e.g. fax machines, computers with access to the internet) and organizational (e.g. secretariat, working groups)
4. **Uncertainty:** It is widely believed that expert group can exert considerable influence if there is a high degree of uncertainty among policy-makers. Uncertainty can provide a window of opportunity for knowledge-based expert groups to exert influence.
5. **Institutionalization of advice/channel:** The influence of expert group increases if they have access to policy-makers, or even become part of the bureaucratic structure itself. It is suggested that insider groups, particular those who enjoy core or specialist status, are provided with the most opportunity to influence policy-making.

In addition, in this research, there are two sets of hypothesis that I'm going to test whether it is positively or negatively related:

1. The influence of the groups of scholars of FNF is more likely if there is a high degree of consensus among the experts inside the groups.

2. If there is a higher need of policy-input for the future development and path in North Korea, the higher the degree of institutionalized of this kind of expert group channel of the FNF.

4. Main Findings

In the coming five chapters, gradual steps will be provided in analyzing why and how did the FNF shaped the economic reform programs in North Korea. First, as the background review, the history of North Korea economic development and the EU-DPRK relationship will be discussed. Second, in the analytical part, the expert group of the FNF will be the main focus of this part, with analyzed by the three dimensions, including consensus among members, density of the network and the resources of the organization. Then, under the general environment as North Korean government encountered a policy uncertainty, the FNF set up two respective expert groups and organized two EU-DPRK Workshops in 2004 and 2005. Afterwards, the focus of the study will be shifted and go deeply into the details of the Workshops, such as the ideas, channels and strategies. Lastly, in the concluding part, we will try to match the ideas and the practical policy outcome in order to bridge the two items together.

In regards to the empirical questions, under our main findings, it will demonstrate there is somehow a substantial but unofficial channel developed by the FNF in Korea and they organized several knowledge networks with North Korea in recent years. This network, including the two annual EU-DPRK Workshops, plays a significant role in providing answers in knowledge and technical level to the North Korean officials when they're tackling their economic problems.

Beneath this transnational knowledge network, what we witnessed is that an expert group or an early-stage of epistemic community emerged during the two annual EU-DPRK Workshops in Pyongyang in 2004 and 2005. These expert groups was initiated and mobilized by the FNF and they presented their ideas in front of more than 100 North Korean officials. Through various communication channels and strategies, those ideas raised by the community members proliferated and shaped the mindset of the North Korean officials eventually. Hence, by looking at the policy changes and outcomes in recent years in North Korea, we can digest and analyze that there are some substantial policy influence from the scholars on the real policy outcomes.

5. Research methodology

Content analysis will be the major form of method in this research as most of the parts of this thesis is analyzing through different kinds of literature and articles.

In the part of case studies, in regards to the linkage between the expert groups in the FNF with the North Korean officials, the literature that we're going to use are based on two written reports which recorded and published by the FNF in Korea. Base on these reports, we're going to analyze the ideas and articles which presented by the economic scholars in the groups, the detailed summary of the discussion that they conducted during the workshops and the off-conference activities during the three-day workshops, such as the field visits etc.

Moreover, as it's indeed one of the limitations of this research as it's difficult to

find the first-handed data and reliable information which is released by the North Korean authorities. Therefore, most of the literatures of this research are grasped and collected through the South Korean government research institute, such as the Korea Institute for International Economic Policy (KIEP), and some scholars who are from Europe or United States which conducted research in North Korea, such as Dr. Hazel Smith from the University of Warwick. Furthermore, there are several academic journals which are specifically focused on issues related to North Korea, such as the Korea and World Affairs, Korea Focus and North Korean Review, and there are also some non-governmental organizations (NGOs) which are dispatching their humanitarian aid teams to North Korea and published their experiences and details into books and reports, for example the Red Cross and the *Medecins Sans Frontieres* (MSF).

6. Research significance

In the first place, this research can help us to combine the theories on epistemic community and transnational advocacy network and understand more on the early stage of an epistemic community and how it forms. Since the publication of the theory of epistemic community, this approach has raised a lot of cases application with different aspects. However, as Haas has never clearly defined how to measure the channels and networks that the expert group developed and what are the variables in affecting the ultimate policy outcomes. Moreover, as Haas failed to mention the early stage of the expert group can be initiated and invited by the non-governmental organizations (NGOs). In my case, Therefore, this study tries to provide some measurements on how to measure the networks and confined the expert group can be invited by NGOs.

This research, secondly, may raise the awareness of the unaware channel between the expert groups in FNF toward to the officials in North Korea. As what will be stated in Chapter 4, the linkage between the non-governmental level between EU and DPRK will be re-visited. It breaks the general belief that China is the sole player which can provide diplomatic and economic pressure on North Korea. However, this study explore another set of channel which show the influence of Europe, especially in terms of knowledge transfer and market ideology, should not be under-estimated and under-mined. Hence, this research is hoped to raise the alternative way of finding possible network which are providing ideation influence on North Korea.

In the second place, it also fills the research gap in this academic field. In the past, since Haas developed his theory on the linkage between expert groups with the government officials, it has widely been used for understanding the relations in many countries and cases. However, as it's rarely believes that there is the possibility of such kind of relations can be built upon the Europe and North Korea. Therefore, this research tries to apply Haas theory into a new country case by using the renovative methodology in analyzing how did the European expert groups can provide the ideation and policy advice through this channel in affecting the mindset of the North Korean officials and eventually shaped their policy outcome.

7. Structure of the thesis

This thesis will be divided into 5 Chapters. In the next chapter, we will firstly review the literature of several theories which are related to this research, including the theoretical debate on academic ideas and practical policy outcomes, the value of 'ideas' in international relations and how to bridge ideas with interests so as to enrich

the spectrum of analytical framework. Lastly, Haas's theory of epistemic community will be discussed, in order to provide preliminary understanding about the theory and how can it be discussed in this thesis.

In Chapter 2, a historical review on the economic development in North Korea will be provided. In this Chapter, the general trend of economic development can be divided into several parts, such as the Cold War period, Post Cold War period, famine period and reform period. Apart from that, the idea of *juche* (self-subsistence) will also be analyzed and evaluate to what extend this idea shaped the economy in North Korea.

In Chapter 3, the general review on the EU-DPRK relationship will be provided. This Chapter is primarily designs for a basic understanding on the relations between the two actors, including governmental and non-governmental level and in order demonstrates the relations is improving in recent decades. In governmental level, EU, base on the engagement ideology, started to build the diplomatic relations with DPRK in recent years. Concurrently, North Korea, also base on the open and pragmatic diplomacy, is willing to extend their political, economic and social cooperation with several European countries. In non-governmental level, EU and North Korea not only maintained a close and constructive relation, as there were various NGOs which have been providing humanitarian aids and assistance toward the North Korea, but also extended the cooperation into knowledge transfer level.

By describing and analyzing the two EU-DPRK Workshops organized by the FNF is the major focus of Chapter 4. In this Chapter, based on the two written reports of the Workshops, ideas which derived from the presentation and discussion during the

Workshops will be raised and analyzed. Moreover, since the ideas were promoted, we're going to discuss the communication networks and channels and measure the level of institutionalization of such kind of communication strategies.

Finally, in the Chapter 5, the central focus in this Chapter is integrating the ideas raised by the scholars in the Workshops with the policy output in North Korea. This captures the most important finding in this thesis that North Korea is following a different path of economic reform and development either from China or Soviet Union.

Chapter One

Literature Review

In this dissertation, as stated in the introduction chapter, several concepts and theories will be drawn from different schools of thought and academic disciplines and applied to my case studies. Therefore, it is necessary to through the separate debates from the concepts that I borrowed from and explain the ideas in detail.

One of the most important concepts that appear in this dissertation is idea matters in the field of international relations. There is growing of scholarship in applying the study of 'idea' in understanding inter-state behaviors and actions. In the past, idea was on the verge of IR study as most of the academic focus was put on the rationalist approach, which is an interest-based perspective viewing countries as interest and wealth maximizers and undermining the importance of value. Thus, discussion will be made upon whether how to merge the concept of ideas and interests in analyzing the state's behavior and reviving the importance of 'value' in shaping countries' foreign policy. This kind of revival is highly relevant to my study as I have to justify the importance of policy ideas in shaping and directing the policy outcome in North Korea.

In addition, in my dissertation, the target group of study is expert group, therefore, it is important to review the related academic literature in this field. Epistemic community, a non-governmental network of professionals or scholars with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue area, is becoming one of the

relevant players in influencing international politics in recent years. So, in my dissertation, I am going to assess and analyze one of the expert groups in Europe, which was invited by one of the non-governmental organizations (NGOs) in Germany, and more than 10-15 economists were invited to present their ideas to the North Korean officials during the workshops, and I will evaluate their power of networking, ideational influence and final policy outcome in this dissertation. Moreover, as these experts groups is organized by a political foundation in Germany called *Friedrich Naumann Foundation*, it is important and necessary to visit the literature on transnational advocacy network as it primarily focused on how NGOs normatively consolidated the civil societies and pressure the state's policy transnationally.

1. Debate between ideas and interests in International Relations

In academic literature, there are a growing number of scholars who turn to study how 'ideas' can be another variable in understanding states' policy, specifically the foreign policy change. In the past, the study of the impact of ideas on policy was marginalized and limited, simply because the impressive elaboration of rationalist explanations of behavior had been predominant for decades. At that time, individuals were primarily viewed as wealth-maximizers. Actors' preference and interest are prior to any ideas or beliefs and the latter are relegated into a minor role. However, recently, the old assumptions of the rationalism are called into question by the new development of ideas for policy studies. Therefore, there is getting wider acceptance of the conglomeration of the actor's interest and ideas in studying state's action.

But, to be more specific, what is idea? Judith Goldstein and Robert Keohane defined ideas as beliefs held by individuals, and they help explain political outcomes,

particularly those related to foreign policy. In addition, they mentioned that ideas can influence policy when the principled or causal beliefs they embody provide road maps that increase actors' clarity about goals or ends-means relationships.⁹ Hence, in this aspect, idea is a broad concept and basic belief which plays a central role in organizing and interpreting politics and shaping foreign policy.

Moreover, once ideas have become institutionalized they play a role in generalizing rules and linking issue areas. When collective action requires persuasion rather than mere coercion, and when consistency of policy is demanded on the basis of principles institutionalized in the form of rules, reasons must be given for proposed courses of action; when reasons are required, ideas become important.

1.1. Conceptualization

In order to have a better conceptualization of ideas which can provide a concrete picture of it, we have to formulate or categorize ideas into three main beliefs, which are worldviews beliefs, principled beliefs and causal beliefs.

Ideas have their broadest impact on human action when they take the form of world views.¹⁰ Once ideas have a deep effect on human social life in a variety of ways and across centuries, we would qualify them as worldview beliefs. For example, the idea of sovereignty, which rose after the Treaty of Westphalia in 1648, brought a revolutionary and international change of world order since then.¹¹ After this idea had

⁹ Goldstein, Judith and Robert Keohane. 1993. *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*. Ithaca: Cornell University Press, p.3.

¹⁰ Ibid, p.8

¹¹ Ruggie, John. 1983. Continuity and Transformation in the World Polity: Toward a Neorealist Synthesis. *World Politics* 35, 2: 261-85.

erupted, there were many states experiencing independence movement and creating a new set of international norms. Therefore, this dominant idea is one of the best examples of worldview beliefs.

The second category of ideas, principled beliefs, consists of normative ideas that specify criteria for distinguishing right from wrong and just from unjust.¹² In this category, beliefs are expected to be morally driven and protection of world interest. For example, it is proclaimed that 'slavery is wrong,' that 'abortion is murder', and human beings have the 'right of free speech'. When we look at the empirical case, the revolutions of 1989 in Eastern Europe completely and clearly illustrated an example of principled beliefs. People self-initiated and continued to go on street for risky demonstrations, at the same time they sacrificed their self-interest to be a 'free-rider' in this scenario.

The last category, causal beliefs, is beliefs about cause-effect relationships which derive authority from the shared consensus of recognized elites, whether they are village elders or scientists at elite institutions.¹³ This kind of causal belief provided a guide for individuals on how to achieve their objectives. Concurrently, they also inherit some scientific causal relationships which provided a knowledge authority on peoples' beliefs. For example, the reason why there was a great change in state's policy on production of CFCs was primarily due to the new scientific evidence about the hole in atmospheric ozone layer which would contribute to cancer and climate change. Thus, this scientific finding portrayed as an authoritarian idea which showed a causal relationship between human behavior and climate change so that it demanded

¹² Goldstein, Judith and Robert Keohane. 1993. *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*. Ithaca: Cornell University Press, p.9.

¹³ Ibid, p.10

a change of state's policy.

1.2. How idea affects policy: three pathways?

Ideas can motivate states and affect foreign policy outcomes in various ways. First of all, ideas can serve as a road map for policy development. Actually, once there is a need to policy change in an uncertain and confusing environment and future, ideas, at that time, can provide a guidance to policy-makers about what road should they take and by endorsing what kind of strategies. For example, when the Soviet foreign policy since 1985 required a non-incremental and rapid change with unclear road map, particular idea emerged in the Gorbachev era which leads his reform with new circumstances.¹⁴

Simultaneously, ideas can also serve as a 'focal point' which drives the best policy path in a multiple equilibria situation. Focal point, here, I mean that cooperative solutions or act as coalitional glue to facilitate the cohesion of particular groups.¹⁵ On this pathway, ideas can contribute to outcomes in the absence of unique equilibrium reduces them to focal points for policy convergence. Thus, the fact that actors will cooperate and the reasons why they want to cooperate are taken for granted. The remaining idea will become a signaling device for a new equilibrium. So, at that time, ideas will be important precisely because unique predictions cannot be generated solely through an examination of interests and strategic interactions due to the situation of multiple equilibria. For example, the European Community (EC) faced a

¹⁴ Checkel, Jeff. 1993. Ideas, Institutions, and the Gorbachev Foreign Policy Revolution. *World Politics* 45, 2: 278.

¹⁵ Goldstein, Judith and Robert Keohane. 1993. *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*. Ithaca: Cornell University Press, p.17.

classic collective action problem in the 1980s about what route they should take in order to stimulate trade but avoid defect. In this case, parties around members referred back to the two embedded principle in EC which are principle of mutual recognition and the supremacy of the EC laws over domestic laws. The ideas in this two principled served as a 'focal point' for EC to get rid of and control the self-interested defective behavior of the members so as to achieve the collective gains.¹⁶

The last pathway which idea can serve as is institutionalization. Regardless of how a particular set of ideas comes to affect political outcome, the continue use of this ideas will gradually and incrementally changes on the existing rules and norms. After generations, once the ideas become embedded in institutions and then act as intervening variables mediating between the pursuit of interests and the policy outcomes, the institutionalized ideas will inherit and continue to influence the policy direction until next great shock. For example, Stephen Krasner, in his study of the origins of the nation-state system¹⁷, disregarded the Treaty of Westphalia in 1648 was a clear delineation between old empire and sovereign states. In his study, he discovered that sovereignty existed long before the mid-seventeenth century. So, once this idea or norm institutionalized, the gradual change of state-system will be predicted.

1.3. Interest matter?

In the post-war scholarship the starting point for most theorizing about

¹⁶ Garrett, Geoffrey and Barry Weingast. 1993. Ideas, Interest, and Institutions: Constructing the European Community's Internal Market. In Judith Goldstein and Robert Keohane. eds., *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*. Ithaca: Cornell University Press, p.178.

¹⁷ Krasner, Stephen. 1993. Westphalia and All That. In Judith Goldstein and Robert Keohane. eds., *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*. Ithaca: Cornell University Press, p.235.

international politics has been power and national interest, with power understood ultimately as military capability and interest as an egoistic desire for power, security or wealth.¹⁸ This is so-called the realist approach of the IR. Afterward, the mainstream rationale for International politics was to be dominated by this material and preference-driven theory which explained state's behavior from an interest-based aspect.

In this aspect, scholars, such as Karen Orren and Theda Skocpol, emphasize that the notion of interest is treated as idea-free baselines which is viewed differently from ideational factor.¹⁹ When studying international politics, rationalists assume that the outcomes in international relations reflect the objectively definable interests of relevant parties, given their respective capabilities. Also, the core of rationalist explanations is the view that preferences and expectations generate behavior. Therefore, when a state changes its policies, for example, to promote free trade, we should first examine changes in interests, at either in international or domestic level, rather than focus on the ideas.

As realists take agents' behaviors as interest-driven, they take ideas, beliefs and norms for granted in the unit of study. Under the assumption of the rationalists on human behavior, they regard human as an interest-maximizer and overwhelmed by material-driven mentality. Human beings will calculate their cost-benefit ratio and utility carefully and strategically and list down their preference of choices before taking any action. With this rational mindset, all of the physical individual actions are simply interest-determined and individuals view idea only matter in an priori sense

¹⁸ Wendt, Alexander. 1999. *Social Theory of International Politics*. Cambridge; New York: Cambridge University Press, p.96.

¹⁹ Orren, Karen. 1995. Ideas and Institutions. *Polity* 28: 99.

with limited and even no influence on their actions.²⁰

1.4. How is it formed?

The study of interest in International Relations was traditionally the mainstream rationale for academic scholarship. Obviously, the realist argument was one of the most influential approaches which ignored ideas completely. In realism, the paramount of study is the 'interest of the state' in power-political terms. The state is understood as a unitary actor, whose national interest is heavily conditioned by the view that any one state's interest is construed mainly with reference to that state's position in respect to other states.²¹ So, in realist view, the analysis of interests permits an objective, rigorous, and timeless explanation of international affairs.

In realist theories in international relations, the concept of 'interest' is remarkably important. Realists of all stripes believe that states do what they do because it is in their national interests, and that the national interests is self-regarding with respect to security. Alexander Wendt described that 'the uniquely realist hypothesis about national interest is that they have a material rather than social basis, being rooted in some combination of human nature, anarchy, and or brute material capabilities.'²² One of the best examples, the famous quotation from the defense of national interest was a better source for explaining states' action is by Winston Churchill commented on Soviet policy: He explained the Soviet policy at that time was best to be explained by national interest in this way: 'Russia. . . is a riddle, wrapped in a mystery, inside an

²⁰ Finnemore, Martha and Kathryn Sikkink. 2001. Taking Stock: The Constructivist Research Program in International Relations and Comparative Politics. *Annual Review of Political Science* 4: 398.

²¹ Waltz, Kenneth. 1979. *Theory of International Politics*. Reading, MA: Addison-Wesley.

²² Keohane, Robert. 2000. Ideas Part-Way Down. *Review of International Studies* 26: 125.

enigma; but perhaps there is a key. That key is Russian national interest.’²³ He believed that national interest was the basic driven-power of Soviet foreign policy.

In Waltz’s conceptualization of realism, states all perform the same functions (internal order, external defense) and so are ‘like units’. States vary in their capabilities and other attributes, but not functionally. Waltz says that units will be homogenous as long as the system is anarchic, and so the structure in international relations will drive states to be material concern and their basic interest is power and security. ²⁴Therefore, the study of motivation is of utmost importance in realism. States is egoistic and self/national interest actors and they will behave rationally and be interest-maximizing.

1.5. End of idealism and rationalism debate?

The argument of this dissertation has been that the meaning of the distribution of power and interest in international politics, and the contrary side of ideas shaping state’s behavior. Scholars for centuries have tried endlessly in bridging the ideas and interests together to study the action of states. Actually, ideas and interests are naturally not rival and incompatible at all. To be more specific, ideas and interests can somehow be inter-related and inter-dependent. For example, Odell commented that we could not conceive of changes of state’s action simply in terms of state’s interest. He studied U.S. international monetary policies that ‘an adequate explanation or forecast of U.S. policy content will require a combination of the three corresponding analytical perspective: International market conditions, the inter-state military and

²³ Lénárt, Levente. 2003. Sir Winston Spencer Churchill and the Movement of the Unification of Europe. *European Integration Studies* 2: 20.

²⁴ Waltz, Kenneth. 1979. *Theory of International Politics*. Reading, MA: Addison-Wesley.

economic power structure, and the circulation of policy ideas through Washington.’²⁵

Specifically, foreign policy is derived from a combination of material capabilities and interests, on the one hand, and ideas and values, on the other. That means International politics has been socially constructed by ideas, without denying the importance of state action, material forces, or rational calculation.²⁶ So, it is unwise and wrong to view that ideas matter more fundamentally than material forces and vice versa.

So, according to Sikkink²⁷:

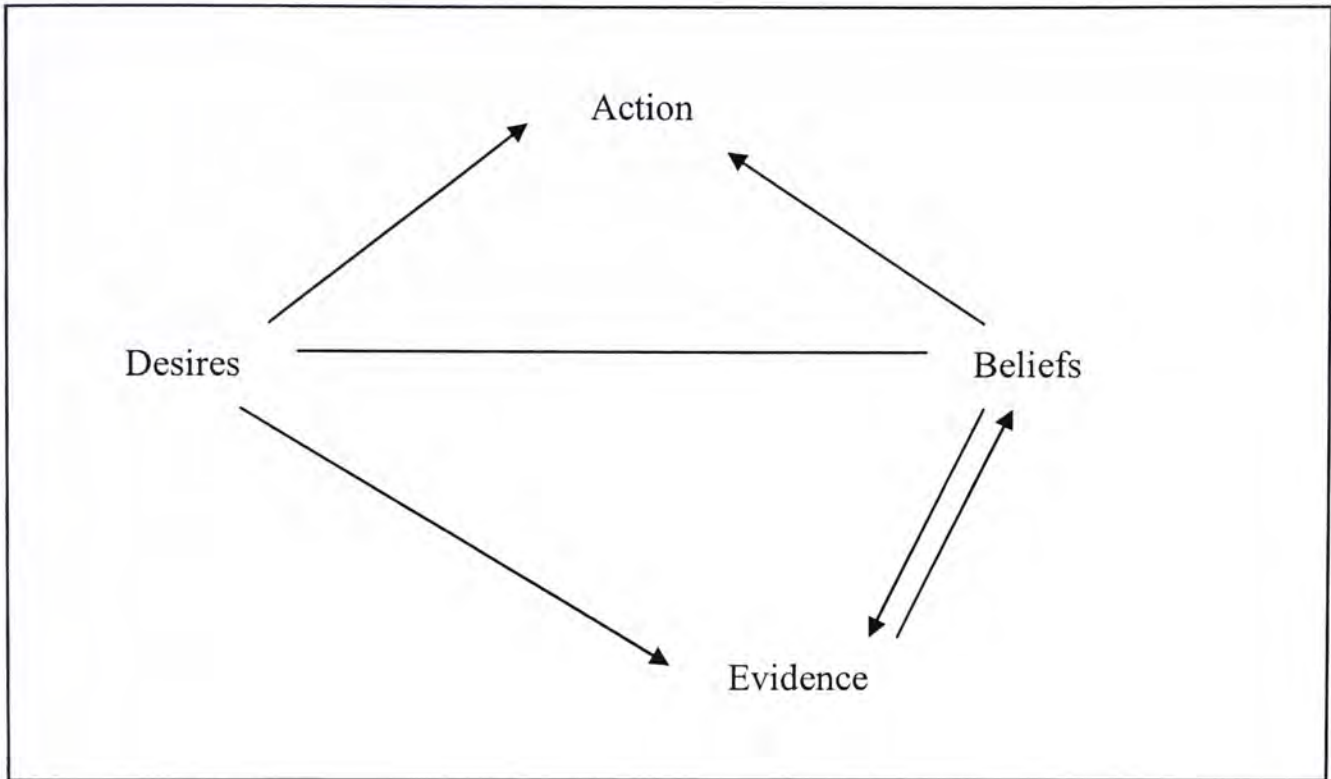
...the separation of ideas and interests is fundamentally flawed. Political and ideological factor (i.e. ideas) influences the very meaning and interpretation of economic ideas and recommendations (i.e. material interest). Except in its crudest form, the comprehension and formulation of fact and interests implied the existence of a conceptual apparatus. To conceive of ideas as intellectual justifications of actions that people wanted to take anyway is to obscure the role of ideas in helping people grasp, formulate and communicate social realities.

²⁵ Odell, J. 1982. *United States International Monetary Policy: Market, Power and Ideas as Sources of Change*. Princeton, NJ: Princeton University Press, p.344.

²⁶ Ibid, p.135.

²⁷ Sikkink, Kathryn. 1993. The Power of Principled Ideas: Human Rights Policies in the United States and Western Europe. In Judith Goldstein and Robert Keohand, eds. *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*. Ithaca, NY: Cornell University Press, p. 140.

Table 1.1 Relation between ideas and interests



Refer to table 1.1, in studying state's action, according to the above paradigm, we can understand that every action taken by state should be composed of at least three components: desire, beliefs and action. Once every state has decided to take any action, behind that, we can see there should be a desire which drives state for specific interest of action. Concurrently, not only interest will be calculated, but we also have to deal with some beliefs inside our mind which are shaped by past experience. These beliefs will also be one of the variables for our action. For example, we go to grocery store for food when we feel hungry, and we have a desire for food and belief and that desire can be satisfied there. Therefore, this intentional explanation model from the constructivist perspective can generally bridge and link the two rationales together.²⁸

Moreover, another way which is possible to mix or bridge the concepts of ideas and interests together is by understanding the nature of interest. Alexander Wendt said

²⁸ Wendt, Alexander. 1999. *Social Theory of International Politics*. Cambridge; New York: Cambridge University Press, p. 130.

that 'beliefs can constitute desire: that is, beliefs that something is desirable play a key role in constituting interests.'²⁹ Actually, when studying human reasoning about their preference and interest, ideas at that time constitute interest, by making particular potential objectives meaningful and rendering others less consequential. ³⁰Therefore, any interest of individual should have been socially constructed by ideas and should not be given. As a result, it implies that every choice taken by individual or state should be affected by ideational factor.

The best example to illustrate the merge of conceptual frameworks of ideas and interests was to be found in the change of Soviet foreign policy in the mid-1980s by Gorbachev. Traditionally, scholars who studied Soviet foreign policy were long seen as reflecting both the geographical position of Russia, and the material resources at the disposal of the Soviet Union, on the one hand; and sets of ideas, both from Marxism-Leninism and from traditional Russian views of world politics.³¹ However, when Gorbachev brought a revolutionary and shocking change of Soviet foreign policy in 1985, scholars found that it was insufficient to borrow only the interest-based explanation to provide a full-picture of the change. Therefore, as Rissen-Kappen published his article in 1994, he provided an ideational factor which contributes to the shift in Soviet foreign policy.³² Certainly, in this case, or even to generalize into all the cases in international relations, we cannot analyze a change of state's behavior either from the perspective of ideas or interests. So, the best strategy is to merge them together which can help us understand the situation with a more

²⁹ Ibid, p.133.

³⁰ Laffey, Mark and Jutta Wekdes. 1997. Beyond Beliefs: Ideas and Symbolic Technologies in the Study of International Relations. *European Journal of International Relations* 3, 2: 199.

³¹ Keohane, Robert. 2000. Ideas Part-Way Down. *Review of International Studies* 26: 127.

³² For details please read: Risse-Kappen, Thomas. 1994. Ideas do not Float Freely: Transnational Coalitions, Domestic Structures, and the End of the Cold War. *International Organization* 48, 2: 185-214.

comprehensive and broader scope.

To conclude, this part shows a historical and theoretical debate on how to re-visit the importance of ideas in international relations. Traditionally, overwhelmed by the rational, interest-based and state-oriented paradigm, idea was not regarded as an essential factor in affecting state behavior and the factor to analyze state's action. Thus, in the study of IR, idea was long to be marginalized and state would only take national interest into consideration.

But, as mentioned in the above part, the growing trend of re-evaluation of the role played by idea in this academic field in recent years. Since then, in the constructivist turn, ideas, culture and knowledge began to rise as a new study focus in IR and scholars also began to apply ideas as a variable in understanding state's behavior and its policy.

In regards to this dissertation, one of the major arguments is that idea promoted by the expert group in FNF was essential in shaping the economic reform program in North Korea. Based on the finding by Risse-Kappen mentioned above, it's unsurprising that the policy change in communist regime is not impossible aroused by the foreign pressure and influence. Likewise, this foreign pressure can also be based on some ideational factor, which is initiated by some NGOs. Hence, in the following chapters, a deeper analysis will be provided as the North Korea economic reform can be shaped by some ideas raised and promoted by the expert group in Europe and therefore idea did play a constructive role in influencing state's policy and action.

2. Debate between epistemic community with other communities

Epistemic community has been a new academic focus of scholarship in international relations (IR) in recent years while non-state actors (NSA) has become one of the relevant players in the international political spectrum. In the traditional study of IR, the state-centric was the dominant approach and state is the unitary actor in the global arena. However, since the early 1990s, when IR scholar Alexander Wendt developed the constructivist approach with the inclusion and justification of the importance and contribution of the non-state actors (NSA) and non-governmental organizations to the global politics, epistemic community has become one of the new developing non-state actors in shaping the national and transnational policy making process.

In the study of epistemic community, Thomas Risse-Kappen was the very first scholar by making use of the idea of knowledge, values and strategic concepts, to reconceptualize the change of the Soviet leader's mindset by inviting the Western liberal internationalist community, which included the supporters of arms control as well as researchers in Western Europe. This transnational network with 'new thinkers' in the foreign policy transformed the Soviet's Foreign Policy.³³

After the pioneer works by Risse-Kappen, Peter Haas followed accordingly from the basic ideas developed by the previous scholars and generalized them into a detailed and concrete definition of what expert group is. Haas argued that modern decision-makers had faced growing technical complexity and uncertainties in

³³ Risse-Kappen, Thomas. 1994. Ideas do not Float Freely: Transnational Coalitions, Domestic Structures, and the End of the Cold War. *International Organization* 48,2: 86

addressing policy issues, and thus increasingly had relied on knowledgeable experts. A network of such experts can create an 'epistemic community' in which members are professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue area. They have a share of technical knowledge related to a particular field as well as normative principles, causal beliefs, and a shared conception of interests. Because of their claim to expertise, such expert groups can diffuse norms and values as well as technical knowledge and thereby influence policy outcomes.

Therefore, in his book, he provided a concrete definition of what epistemic community means³⁴:

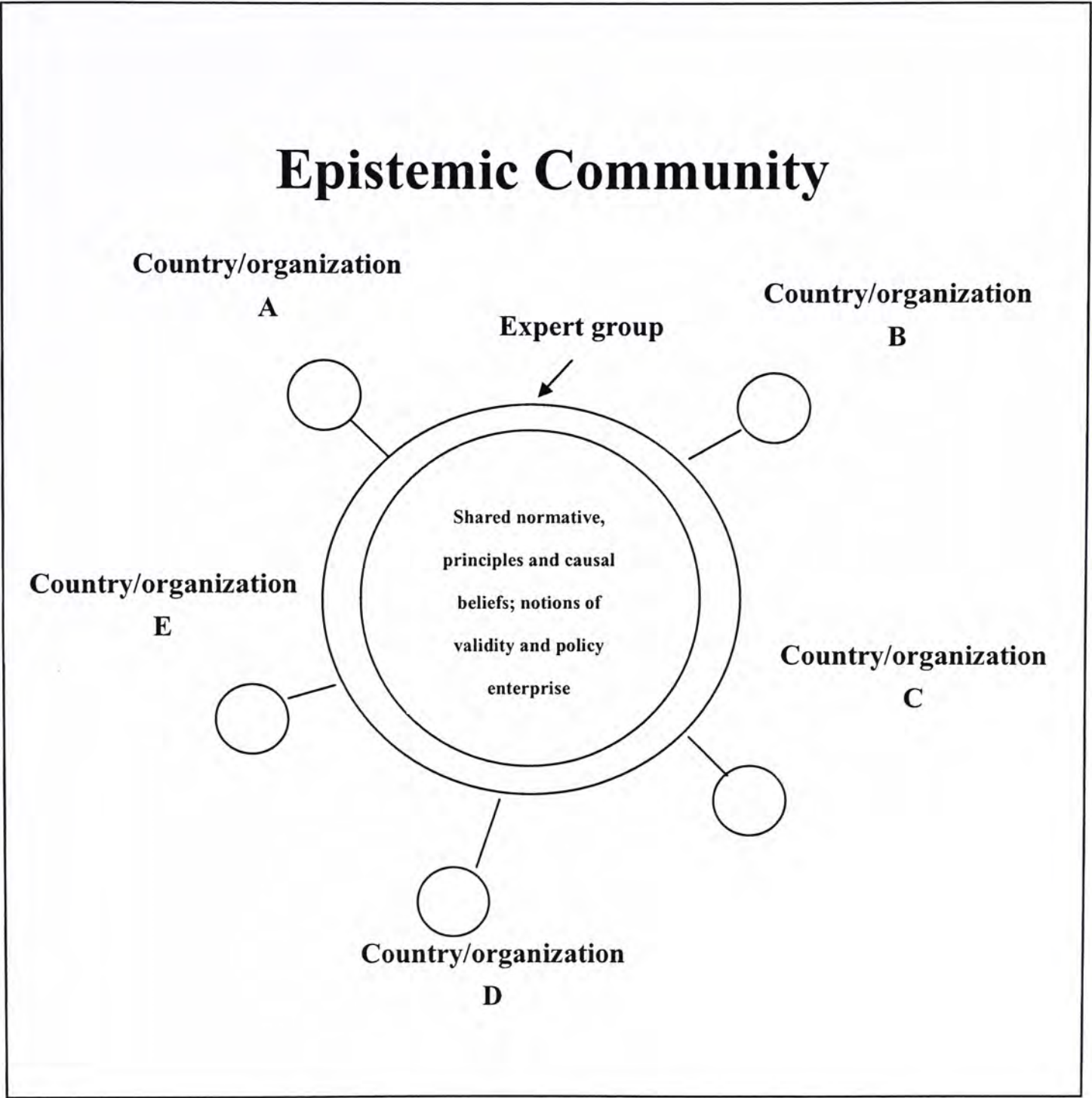
1. **a shared set of normative and principled beliefs**, which provide a value-based rationale for the social action of community members
2. **shared causal beliefs**, which are derived from their analysis of practices leading or contributing to a central set of problems in their domain and which then serve as the basic for elucidating the multiple linkages between possible policy actions and desired outcomes.
3. **shared notions of validity** - that is, intersubjective, internally defined criteria for weighing and validating knowledge in the domain of their expertise
4. **a common policy enterprise** – that is, a set of common practices associated with a set of problems to which their professional competence is directed, presumably out of the conviction that human welfare will be enhanced as a consequence.

³⁴ Haas, Peter. 1997. ed., *Knowledge, Power, and International Policy Coordination*. Columbia, S.C.: University of South Carolina Press. p.3.

The epistemic community factors in when we realize that these issue-centric experts meet their counterparts from other nations/organizations. They may meet at conventions or even be members of some international organizations focusing on a particular issue. Because the experts share the language and the understanding pertinent to the issue-area, they may soon begin to form stronger ties with their international colleagues.³⁵ Eventually they may begin to discuss possible solutions to given problems among themselves. At that point they are at the point of forming an epistemic community proper, (epistemic community literally translates as *knowledge-society*). In the figure below, such a community has already been formed (it should be remembered that it is not necessary to have any formal meeting arrangements for an expert group to be present). The community will devise their own solutions to problems that their respective superiors are formally supposed to solve. When the actor asks his/her experts how to go about solving a particular issue, the community solution will be suggested.

³⁵ Sundstrom , Mikel. 2000. *A Brief Introduction: What is an Expert group?*. Available at: <<http://www.svet.lu.se/joluschema/epistcomm.pdf>>.

Table 1.2 What is Epistemic Community?



(Source: Mikel Sundstrom 2000, p.1)

2.1. How expert group works

2.1.1. Uncertainty

The necessity of the existence of such kind of epistemic community in the

international arena is the idea of uncertainty. According to Peter Haas, facing uncertainty means there is an inadequate information about the situation in hand/ inadequacy of available general knowledge needed for assessing the expected outcomes of different courses of action, the decision-maker 'lacks many of the conditions facilitating a focus on power...to identify their political allies and to be sure of what strategies are most likely to help them retain power...and poorly understood conditions may create enough turbulence that established operating procedures may break down, making institutions unworkable.'³⁶

In nowadays world, which is more complicated and transparent, a policy decision is made more or less relying on a concrete and objective study beforehand. However, somehow some decision-makers in the government lack such kind of specific knowledge or ideas on it. As a result, they are likely to demand for the provision of considerable scientific or technical expertise, and epistemic community is needed.

2.1.2. Cause and effect relationships

Under conditions of uncertainty, the decision-makers have numerous incentives and reasons for consulting epistemic community. Followed by a shock or crisis, epistemic community can elucidate the cause-and-effect relationships and provide advice about the likely results of various courses of action.³⁷ Moreover, epistemic community can shed light on the nature of the complex interlinkages between issues

³⁶ Haas, Peter. 1997. ed., *Knowledge, Power, and International Policy Coordination*. Columbia, S.C.: University of South Carolina Press. p.13.

³⁷ Haas, Peter. 1997. ed., *Knowledge, Power, and International Policy Coordination*. Columbia, S.C.: University of South Carolina Press. p.15.

and on the chain of events that may proceed either from failure to take action or from instituting a particular policy.

2.1.3. Define self-interests

In addition, epistemic community can help to define the self-interests of a state or factions within it. During the process of interpreting the cause-and-effect relationships of problems, it can in fact lead to the relocating of the preconceived interests or to the identification of new interests.

2.1.4. Formulate policy

Epistemic community can also help formulate policy by providing policy advice. During the policy formulating process, their role in this regard will depend on the reasons for which their advice is sought. In some cases, decision-makers will seek for advice to gain information which will justify or legitimate a policy that they wish to pursue for political ends. In this regard, the role of the epistemic community will be limited to working out the details of the policy, assisting the decision-makers to anticipate the potential conflicts and interests which will emerge in a particular circumstances, and helping to build a policy consensus coalitions. However, in some less political affiliated issues, the policy influence of the epistemic community will be tremendously widened and deepened in various policy development stages, such as providing policy alternatives, selection of policies and building of national and international coalitions in supporting the policies.

2.2. Difference between epistemic community with other groups

Apart from epistemic community, there are various political and social groups, governmental or non-governmental, national or transnational, highly connected or loosely connected. In order to distinguish the expert group from the other agents such as interest groups, advocacy coalitions and transnational networks, Peter Haas developed the following categorical table³⁸:

Table 1.3 Distinguishing expert groups with other groups

Causal beliefs			
Normative beliefs		Shared	Unshared
	Shared	Epistemic community	Interest groups and social movements
	Unshared	Disciplines and professions	Legislators, bureaucratic agencies, and bureaucratic coalitions

Knowledge base			
Interest		Consensual	Disputed or absent
	Shared	Epistemic community	Interest groups, social movements, and bureaucratic coalitions

³⁸ Haas, Peter. 1997. ed., *Knowledge, Power, and International Policy Coordination*. Columbia, S.C.: University of South Carolina Press. p.18.

	Unshared	Disciplines and professions	Legislators, bureaucratic agencies
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In the first figure, normative belief means that there are certain norms/ethics responsibilities for the epistemic community to be proactive and bring knowledge to lead the policy-making in the government. In addition, within the communities, they achieved a high degree of ideological consensus and agreement over the issue characteristics. Second, causal belief means that they are groups of scientists, which provide empirical and persuasive evidence to the public and bureaucrats. But, somehow, they are not needed to be made up of natural scientists; they can consist of social scientists or individuals from any discipline or profession who have a sufficiently strong claim to a body of knowledge that is valued by society. Also, they can deal with a single country, or they may in some cases become transnational through conferences, research collaboration, and a variety of informal communications and contacts. Therefore, epistemic community act to channel ideas to decision-makers and also circulate ideas between states, for example, the Network supporting nuclear arms control, ban on nuclear arms testing, a network concerned with the protection of stratosphere ozone, a network concerned with the spread and application of neo-liberal or central-planning economic ideas, a network supporting the creation of a permanent international criminal court.

2.3. How to affect policy

In recent years, epistemic communities have been developing as a new coming agent which affects the domestic and international policy formulating process.

Through different channels or means, the communities can make significant importance and contribution to the government consultation process and finally direct the policy outcome.

In Zhao's article, he mentioned there are several policy channels which the epistemic community can affect the policy outcome³⁹:

First, through organizing some **consultations with policy makers** (such as invitation lecture, issue-oriented debate and discussions), the epistemic community with think-tanks and intellectuals on specific policy issues can provide essential, specific and practical thoughts on the how to reform and re-develop the government policy in those policy areas specifically. These kinds of interactions provide opportunities for scholars to exercise direct influence on the opinions of top leaders, and in some occasion, may have some policy impact.

Second, a more traditional way for epistemic community to exert their influence has been through **internal reports** to top leaders. Some leading policy organizations and agencies in the government have their own research institutes. There are long-established channels through which scholars may submit research papers, policy analyses, and recommendations to various levels of policy makers, including, from time to time, to the top leaders.

Third, another important channel for intellectuals and scholars to convey their opinions is through **conferences and public policy debates**. Research institutes

³⁹ Quansheng, Zhao. 2005. Expert group, Intellectuals, and Chinese Foreign Policy. *Paper presented at the 34th Sino-American Conference "Personality and the Changing Structure of Politics in Greater China", University of Virginia, April 29- May 1.* p.7.

affiliated with universities and various governmental agencies are the likely host for policy-oriented conferences. They invite professors and research fellows from leading universities and research institutes and present their analyses on specific topic at the international conferences and debates. Generally speaking, these activities present excellent opportunities for researchers to voice differing opinions in front of the top leaders.

Fourth, **Policy NGOs** are also one of the possible potential channels which the intellectuals and scholars can involve in the policy formulation process. This common practice is so called ‘Channel 2 Diplomacy’, which refers to the activities of retired government officials, scholars, and think-tanks members who actively participate in all kinds of forum, meetings and other activities. These forums or academic conferences set up an academic-to-official exchange network which fulfills the strong desire for policymakers to make some ideas exchange with the scholars in this circumstance. Moreover, after the forums, the reports or publications on the discussions will also provide a written channel for the scholars to influence the government’s policy.

Fifth, as the new media has been highly developing in recent decades, epistemic community can also, by making use of such kind of **outside system discussions** medium, voice out their opinions to the government officials. In the internet age, there is a growing concern on the news media discussion forum about the possibility to mobilize new kinds of intellectual movement through internet discussion debates.

Sixth, epistemic community can further widen their power and strengths by coordinating with other **overseas scholars in centralizing their network and**

knowledge pool and power to make pressure on the government policy. Many professors and scholars, by making use of all kinds of network, organized themselves into academic exchange and professional networking organizations in order to play a constructive role in policy formulation. Through these kinds of academic activities, such as holding international conferences and international visiting programs, local and overseas scholars have the opportunity to conduct extensive discussions, with national and transnational perspectives, in order to widen the scope of policy discussions to push the government policy reform.

Other than Zhao, Glaser and Saunders⁴⁰ also suggest there are various pathways which the research institute can seek to influence the mindset of the policy officials, for example, internal reports, small group policy meetings, informal consultations with policy makers, internal conference, appearance in media, academic articles and books

2.4. Transnational Advocacy Network

2.4.1. What is network

As a term that is widely used in several aspects in economics, sociology and political science, network are inherently difficult to define. In most general understanding, networks are simply collections of linked nodes. In social science, a fundamental difficulty of definition stems from the fact that networks can be seen as organizational structures or processes that bring actors together.⁴¹ And in addition,

⁴⁰ Bonnie S. Glaser and Phillip C. Saunders .2002. Chinese Civilian Foreign Policy Research Institutes: Evolving Roles and Increasing Influence. *China Quarterly* 171 (September 2002): 607.

⁴¹ Perkin, Emily and Julius Court. 2005. Networks and Policy Processes in International Development:

management theorists Lipnack and Stamps describe as a 'networked organization' combines both the structural and the procedural elements of networking.⁴² More recently, Riles addressed similar issues in the *Network Inside Out* (2001), she indicated that a network is both a means to an end and an end in itself, and that the role of actors is in part simply to validate the continued existence of the network.⁴³ Based on these definitions, it is widely be accepted that network is formal or informal structures that link actors (individuals or organizations) who share a common interest on a specific issue or who share a general set of values.

However, there are essential functions that are particularly well suited to the network structure. Network do have the capacity to foster the following items⁴⁴:

1. Communication: the multiplicity of links within a network allows for actors to communicate better. Hence, there is the potential for knowledge to be shared interactively across both horizontal and vertical dimensions.
2. Creativity: free and interactive communication among a diverse range of actors offers a fertile climate for creative action.
3. Consensus: networks can make use of their many links among diverse actors to build consensus, often circumventing formal barriers. They allow like-minded actors to identify each other and rally around a common issue.

The word 'network' has come to be adopted as a buzzword in a wide range of contexts, and it is always enthusiastically acknowledged that networks have a

a Literature Review. *Working Paper 252 of Overseas Development Institute*, London, p. 2.

⁴² Lipnack, J. and J. Stamps. 1994. *The Age of the Network*. Essex, Junction, Vermont: Oliver Wight Publications, Inc., p.1

⁴³ Riles, J. 2001. *The Network Inside Out*. Michigan: University of Michigan Press, p.2

⁴⁴ Perkin, Emily and Julius Court. 2005. *Networks and Policy Processes in International Development: a Literature Review. Working Paper 252 of Overseas Development Institute*, London, p. 2.

significant role to play in modern society.⁴⁵ In the sense of the rising of importance of networks in nowadays, it can be concluded that globalization, governance and knowledge management are the contributing factors which support the growing importance of networks. Globalization demonstrates a fast growing importance on information and technology development and societal networks. Concurrently, governance shows there is a growing pressure on national governments and international organizations to link better with non-governmental actors and supranational actors in order to vertically and horizontally ensure legitimacy and effectiveness of the regime.

2.4.2. What is transnationalism

Transnationalism is a modern and even current term which often used to describe state-to-state policy and some global issues which affect not only for a single country but also spread into several surrounding countries as well. In defining what is transnationalism, Thomas Risse-Kappen, one of the most well-known IR scholars, mentioned 'transnational relations', is regular interactions across national boundaries when at least one actor is a non-state agent or does not operate on behalf of a national government or an intergovernmental organization.⁴⁶

In addition, Joseph S. Nye and Robert O. Keohane also noted that 'interstate' interactions along with conventional diplomatic activity. Other interactions, however, involve nongovernmental actors – individuals or organizations – and we consider these interactions 'transnational'. Thus, a transnational interaction may involve

⁴⁵ McCarthy, H., P. Miller and P. Skidmore. eds., 2004. *Network Logic: Who Governs in an Interconnected World?* London: Demos, p. 5.

⁴⁶ Risse-Kappen, Thomas. 1995. *Bringing Transnational Relations Back In : Non-State Actors, Domestic Structures, and International institutions*. Cambridge; New York, NY, USA: Cambridge University Press, p. 2

governments, but it may not involve only governments: Nongovernmental actors must also play a significant role.⁴⁷

Therefore, ‘transnational interactions’ is to describe the movement of tangible (physical objects, money and persons) or intangible (ideas, beliefs and doctrines) items across state boundaries when at least one actor is not an agent of a government or an intergovernmental organization.

In the aspect of international relations, transnationalism represented a counter theory on classical realism in various aspects. According to table 1.4, it splits and analyzes the two major approaches in international relations: realist and transnationalist. Between the two approaches, transnationalist approach can be characterized as it focus on majorly about international cooperation and inviting actors which are not coming from the state level. Hence, it varies with realism as it is more optimistic on this non-state level collaboration.

Table 1.4 Comparing realist and transnationalist approach

Realists	Transnationalists
State-to-State relations	Global politics
Independent	Inter-dependence, Universalism
Power struggle between states	International cooperation
Anarchy	Economic interdependence, International Organizations and Institutions

⁴⁷ Keohane, Robert O and Josphe S. Nye. 1995. *Power and Interdependence*. New York: HarperCollins Publishers, p. 2

Pessimistic view on human nature	Optimistic view
Power	Order
Zero-sum interest	Common interest/consensus

In addition, transnationalism can also be categorized into two different levels: global and local levels. In the global level, it targets on some specific multilateral collectivities, such as United Nations (UN), the International Monetary Fund (IMF), the World Bank (WB), international non-governmental organizations (NGOs), and the global capitalist class. The aim of this global level is to seek to construct a global neoliberal contextual space, a ‘new world order,’ to regulate transnational flows of capital, trade, people, and culture.

On the other hand, local level targets on specific collectivities, local households, kin networks, elite fractions, and other emergent local formations, which actively pursue transnational migration to create and reproduce another kind of transnational social space, the ‘trans-locality’, to sustain material and cultural resources in the face of the neo-liberal storm.

2.4.3. What is transnational advocacy network?

Transnational advocacy networks (TANs) are the most informal configuration of nonstate actors. Networks are sets of actors linked across country boundaries, bound together by shared values, dense exchanges of information and services and common discourses.⁴⁸ They are significant transnationally and domestically by building new

⁴⁸ Khagram, Sanjeev, James V. Riker, and Kathryn Sikkink. eds., 2002. From Santiago to Seattle: Transnational Advocacy Groups Restructuring World Politics. In Sanjeev Khagram, James V. Riker, and Kathryn Sikkink.eds., *Restructuring World Politics: Transnational Social Movements, Networks,*

links among actors in civil societies, states, and international organizations, they multiply the channels of access to the international system. It is regarded as advocacy networks because they advocate plead the causes of others or defend a cause or proposition. Advocacy captures what is unique about these transnational networks: they are organized to promote causes, principled ideas, and norms, and they often involve individuals advocating policy changes that cannot be easily linked to a rationalist understanding of their interests.⁴⁹

Scholars in this field start to recognize the significant of these activists networks. Motivated by values rather than by material concerns or professional norms, these networks often reach beyond policy change to advocate and instigate changes in the institutional and principled basis of international interactions.⁵⁰ Indeed, these networks are most prevalent in issue areas characterized by high value content and informational uncertainty, such as the anti-slavery movement, campaign for woman suffrage, human rights, environmental protection and labor rights. In addition, these non-traditional international actors try to consolidate their members' cohesion by shared norms and values and mobilize them to arouse the public attention on certain issues or even create new issues and categories and to persuade, pressure, and gain leverage over much more powerful organizations and governments.

Major actors in advocacy networks may include the following⁵¹:

1. International and domestic nongovernmental research and advocacy organizations

and Norms. Minneapolis: University of Minnesota Press, p. 7.

⁴⁹ Keck, Margaret E. and Kathryn Sikkink. 1998. *Activists Beyond Borders: Advocacy Networks in International Politics*. Ithaca and London: Cornell University Press, p.8.

⁵⁰ Ibid, p.2

⁵¹ Keck, Margaret E. and Kathryn Sikkink. 1998. *Activists Beyond Borders: Advocacy Networks in International Politics*. Ithaca and London: Cornell University Press, p.9.

2. Local social movements
3. Foundations
4. The media
5. Churches, trade unions, consumer organizations and intellectual
6. Parts of regional and international intergovernmental organizations
7. Parts of the executive and/or parliamentary branches of government

Within these actors, international and domestic NGOs play a central role in all advocacy networks, usually initiating actions and pressuring more powerful actors to take positions. NGOs introduce new ideas, provide information, and lobby for policy changes.

2.4.4. How Transnational Advocacy Network works?

In the last paragraph, it is discussed that TANs are especially strong at working at issues related to human rights, environmental protection and women's rights and mobilizing social concerns transnationally and pressuring governments. However, in general term, TANs appear most likely to emerge around those issues where⁵²:

1. Channels between domestic groups and their governments are blocked or hampered or where such channels are ineffective for resolving a conflict, setting into motion the 'boomerang' pattern of influence characteristics of these networks
2. Activists or 'political entrepreneurs' believe that networking will further their missions and campaigns, and actively promote networks
3. Conferences and other forms of international contact create arenas for forming

⁵² Ibid, p. 12.

and strengthening networks.

It's widely being accepted that 'boomerang' pattern play an essential part of justifying the importance of TANs in shaping state's policy transnationally and through non-governmental channel. When channels between the state and its domestic actors are blocked, the boomerang pattern of influence characteristic of transnational networks may occur: domestic NGOs bypass their state and directly search out international allies to try to bring pressure on their states from outside.⁵³ Therefore, the domestic NGOs form network with other NGOs transnationally and exchange their information, tactics and ideas. Once the NGOs in the other states successfully built up their power to pressure their corresponding government, state in other country will pressure the original state transnationally and shape the state's policy eventually.

Transnational advocacy networks seek influence in various ways that similar to some other groups. However, as they are not as powerful as some traditional political group, they tend to use the power of their information, ideas, and strategies to alter the information and value contexts within which states make policies.⁵⁴ In order to bring pressure the government to change their policy perception and outcome, persuasion and socializations are their major tactics which try to pressure the government in the following ways⁵⁵:

1. Information politics: the ability to quickly and credibly generate politically usable

⁵³ Ibid

⁵⁴ Khagram, Sanjeev, James V. Riker, and Kathryn Sikkink. eds., 2002. From Santiago to Seattle: Transnational Advocacy Groups Restructuring World Politics. In Sanjeev Khagram, James V. Riker, and Kathryn Sikkink.eds., *Restructuring World Politics: Transnational Social Movements, Networks, and Norms*. Minneapolis: University of Minnesota Press, p. 7.

⁵⁵ Keck, Margaret E. and Kathryn Sikkink. 1998. *Activists Beyond Borders: Advocacy Networks in International Politics*. Ithaca and London: Cornell University Press, p.16.

information and move it to where it will have the most impact

2. Symbolic politics: the ability to call upon symbols, actions, or stores that make sense of a situation for an audience that is frequently far away
3. Leverage politics: the ability to call upon powerful actors to affect a situation where weaker members of a network are unlikely to have influence
4. Accountability politics: the effort to hold powerful actors to their previously states policies or principles.

Hence, the transnational advocacy networks have to carefully monitor the situation in different circumstances to catch and even create opportunity for potential networking effectiveness.

2.4.5. What conditions do advocacy networks have influence?

To evaluate the influence of advocacy networks, Keck and Sikkink identify the following types or stages of network influence⁵⁶:

1. Issue creation and agenda setting
2. Influence on discursive positions of states and international organizations
3. Influence on institutional procedures
4. Influence on policy change in 'target actors' which may be states, international organizations or private actors
5. Influence on state behavior

Networks generate attention to new issues and help set agendas when they

⁵⁶ Ibid, p. 35

provoke media attention, debates, hearings, and meetings on issues that previously had not been a matter of public debate. Moreover, networks also can be expected to be more influential when they can help persuade states and international organizations to support international declarations or to change states domestic policy positions. In addition, it also depends on how frequent of the targets of the network campaigns respond to the policy change, especially in the procedures. Finally, it's of utmost importance of the networks can exert pressure and shape states policies, not only on the target states, sometimes but also of other states and international institutions.

3. Application to the North Korea case

This part is essential in by drawing the three debates to the understanding of the case in North Korea, as the North Korean officials encountered a serious and consistent economic recession in recent years and without any possible and practical policy advice. Therefore, one of the European NGOs invited various economic scholars from Europe and organized two big workshops in Pyongyang in order to provide necessary knowledge and policy advice toward to the officials in Pyongyang authorities. As a result, in the following part, a general review of North Korean economy will be made and followed by analyzing the structure and ideation communication between the communities with the North Korean government officials.

As mentioned in the first theoretical debate, ideas, as mentioned, is growing more importance in international relations. Since the rise of constructivism studies in IR, ideas, culture and knowledge began to rise as a new study focus in IR and scholars also began to apply ideas as a variable in understanding state's behavior and its policy.

In regards to the argument of this dissertation, it's designed to justify the ideas promoted by the expert group in FNF was essential in shaping the economic reform program in North Korea. Based on the finding, it's unsurprising that the policy change in North Korea cannot be shaped by outside forces. Likewise, the outside forces can also provide their influence ideationally. In the case study of this dissertation, one of the most influential NGOs, which have been working on North Korean affairs in Europe, organized numerous academic-to-officials workshops in Pyongyang and therefore expert groups was emerged since then. The ideas, which promoted by the academic scholars during the EU-DPRK Workshops, communicated through various institutionalized channels and strategies. After the ideas proliferated, the authoritative and research-based ideas shaped the mindset of the North Korean officials and altered the policymaking. Eventually, through various signs, we noticed that some of the policy outcomes in North Korea was shaped by the ideas brought by the economists in Europe through the EU-DPRK Workshops.

In the second debate, discussion on epistemic community was conducted and the rising of this kind of community was mentioned as knowledge on policy suggestions is getting more and more important in recent years.

Expert group is the major actor to be analyzed in this dissertation. It played an important role in affecting many policies changes and raised numerous issues to the general public and policymakers, such as transborder environmental problem, trade disputes, and human rights protection. In my case study, there were expert groups existed in between the EU-DPRK relationship. Within the non-government level contact, one of the European NGOs, called FNF, organized two huge workshops on providing economic knowledge and technical advice on the economic reform and

uncertainty in North Korea. During the two workshops, scholars from various European countries were invited and they delivered presentations on the topics which they're expert in. After various presentations and other means of communications, the mindset of the policymakers in North Korea was shaped by the ideas promoted by the European counterparts and eventually altered the policy outcomes in North Korea.

In addition, in the debate on whether for or against the dialogue between scholars and policy makers in a normative sense, and whether the gap between the worlds of academic and policy making should be bridged, partly bridged or hard to be bridged. Ironically, this debate is highly relevant to the case study in this dissertation. It's unbelievable that knowledge community can play an effective role in a communist and repressive regime as the policy making in the government is completely dominated by the core group of high officials. However, the case study in this dissertation is going to disprove this myth and demonstrate that there are expert groups which are aim at providing economic knowledge and technical advice to the officials in Pyongyang. Moreover, these scholars within these communities are basically come from Europe, through transnational means of communication strategies, shaped the thinking of the policymakers in North Korea and direct the economic reform. Hence, in this case study, scholars' ideas and their community are extremely important and effective in affecting the policy output designed by the policy practitioners in North Korea.

Chapter Two

North Korea Economy: General Review and Trend Development

To North Korea, the end of Cold War meant not only the picture of the collapse of the Soviet Union, but also the loss of significant economic assistance. More importantly, the collapsed of the USSR, her chief foreign ally and 'brother', China, also started to develop her diplomatic relations with South Korea. These diplomatic and economic pressures pushed seriously on North Korea, and eventually pursue to develop nuclear weapons in order to protect their fragile economy and treat it as a bargaining card to deal with United States for economic assistance.

Since the mid 1990s, North Korea economic situation was further deteriorated. The bad harvests and consistent drought contributed to a great famine happened during the mid 1990s and more than ten thousands of people death from starvation. So as to push to re-build the economy, Kim Jong-il seeks to promote series of spontaneous economic reform in 2001 and finally developed a large scale of economy reform programs at July 2002. However, the effectiveness of the reforms was not that optimistic and successful enough to transform and rescue the poor economic situation in North Korea.

1. History of North Korea

In a classic article in 1941, Harold Lasswell defined 'the Garrison States' as one in which 'the specialist on violence are the most powerful group in society'. North Korea has perfected Lasswell's idea: it is, above all else, the most astounding garrison

state in the world.⁵⁷ The establishment of North Korea was demonstrated as a building of a arsenal in the northeast Asia as the DPRK Constitution calls for 'arming all the populace and turning the entire country into a fortress.'⁵⁸ In terms of military, half of the North Korean population is in the military and with significant military experience. On the other hand, in terms of defense expenditure, it moved up incrementally from around \$1 billion in the 1980s to more than \$3 billion in the mid 1990s. Hence, for decades, military play an important role in shaping the policy direction in North Korea.

Tracing back to the origin of North Korea, the Korean War in the 1950s demonstrates a disastrous conflict between the North and the South inside the Korean peninsula and consolidate the power of the North Korean regime. In defining this civil war, there are several kinds of descriptions, such as a conventional war of aggression by the North Korean, 'another Munich' according to Truman and 'Stalin's war' according to researchers of Soviet documents disclosed after 1991. No matter which side you takes, it's an undoubtedly fact that in the summer of 1950, North Korean troop was mobilized and invaded on the South. According to the American perspective, this is one of the most disastrous wars after the second world war and the United States held the responsibility to protect its allies by dispatching her defense forces to South Korea in order to fight back the Pyongyang troops. According to Bruce Cummings, he noted the general belief on the North Korean soldiers during the war period as:

The North Korean soldier must not be underestimated. He is a tough

⁵⁷ Cumings, Bruce. 2004. *North Korea: Another Country*. New York and London: The New Press, p. 1.

⁵⁸ Ibid

opponent, well-led, combines the infiltration tactic of the Japanese with the tank tactics of the Russian of the World War II. He is able to march and maneuver and to attack at night with cohesion with (MacArthur) has never been able to do. These are the troops who served in China... (the) tank work is extremely efficient and skillful.⁵⁹

Since the end of this civil war in the Korean peninsula, the 38th parallel line was drawn so as to split the two Koreas by territorial, economical and ideological sense. North Korea, with the fully supported by the Soviet Union and Communist China, started to build up its socialist system with self-subsistence economic structure. During the cold war era, USSR provided a security umbrella towards North Korea and even shared the nuclear development knowledge. Since then, North Korea began playing its nuclear bargaining card with the United States and contributed to a series political crisis in the Korean peninsula.

2. Overview: From 50s to 2002

The North Korean economy is one of the world's most isolated and bleak.⁶⁰ It was completely bypassed by the economic miracles of the past quarter century that brought modern economic growth and industrialization to South Korea, Taiwan, Singapore, and Hong Kong, as well as rapid growth and trade liberalization to China and Southeast Asian countries. The state-oriented and dominated North Korean economy can be described by state ownership of means of production, centralized economic planning and command, and an emphasis on military development. The

⁵⁹ Cumings, Bruce. 2004. *North Korea: Another Country*. New York and London: The New Press, p. 9

⁶⁰ Nanto, Dick K and Emma Chanlett-Avery. 2005. *The North Korean Economy: Background and Policy Analysis*. *CRS Report for Congress Order Code RL32493*, p. 3

economic system is designed to be self-reliant and closed. However, the more it close, the poorer the economy it is and more reliance on the economic assistance from the international community.

Five decades of North Korean economic development can be summarized by two decades of rapid growth and industrialization followed by three decades of slowdown, stagnation and decline.⁶¹ Despite the devastating Korean War in the 1950-53, North Korea's initial industrialization was impressive. Thanks to the unconditional support by Soviet Union, including finance, knowledge and technology, North Korea received tremendous assistance from USSR during the 50s. Therefore, the early industrialization took place in North Korea was basically driven by USSR establishments and factory building in the North during the WWII and this advantage contribute to the consistent growth in North Korea GDP, which comparatively higher than South Korea at that moment.

North Korea put emphasis on heavy industry, including the chemical, iron, steel, and machine tool sectors. The country could steadily increase its industrial output, producing steel, machine tools, tractors, trucks, bulldozers, and generators, and exported some to the developing countries. These set of economic strategies was further justified by the development of the idea called 'Juche', which can be fully described as the directive strategy in North Korea until now.

1.1. Economic Philosophy: Juche

⁶¹ Soo-Bin Park. 2003. The North Korean Economy: Current Issues and Prospects. *Paper presented at the conference of the Association of Korean Studies in Canada held at the University of British Columbia, Vancouver. (October 3 – 4, 2003), p.3*

The Pyongyang regime has pursued a policy of self-sufficiency and isolation from the world economy that they call '*Juche*' or self-reliance. *Juche* goes beyond economics as it has been used since the 1950s to perpetuate power by the central government and to build an aura of the supernatural around their supreme leaders Kim (Kim il-sung and Kim Jong-il).⁶²

On the one hand, the economic implications of *Juche* have minimized international trade relations, discouraged foreign direct investment, and fostered what it considers to be core industries, mostly heavy manufacturing. On the other hand, during the post Korean War period, North Korean government also emphasized the parallel development of military build-up with the support of concentration on heavy industries.

As mentioned above, *Juche* placed military and economy simultaneously. However, the current leader in North Korea, Kim Jong-il, has given the highest priority to the military than any other thing else. That means under his rule, army placed ahead of the working class (revolutionary/ vanguard party). Compared with his father, Kim Il-sung's *Juche* ideology found equal importance on political independence, self-defense, and economic self-support capabilities.⁶³ Therefore, in years of development, the country formed the tradition on developing its industries within the context of a military-industrial complex linkage, and the whole societal forces were mobilized to support this ideology.

⁶² Nanto, Dick K and Emma Chanlett-Avery. 2005. The North Korean Economy: Background and Policy Analysis. *CRS Report for Congress Order Code RL32493*, p. 3

⁶³ Nanto, Dick K and Emma Chanlett-Avery. 2005. The North Korean Economy: Background and Policy Analysis. *CRS Report for Congress Order Code RL32493*, p. 4

Secondly, when *Juche* ideology links with central planning, a command economy, and government ownership of the means of production, economic decisions that in a market economy would be made by private business and farmers have to go through a few elite in Pyongyang.⁶⁴ These decision makers may or may not understand or take some non-economic factors when making national economic policy, such as they would refrain in attracting foreign investment simply because the regime refused to being ‘exploited’ by capitalists who seeks to make profits on their business opportunity in North Korea due to this kind of cultural mistrust on westerner as a precondition.

1.2. 70-80s

Even dominated by the *Juche* ideology, in the 1970s, North Korea made a large-scale purchase of turnkey factories from the West to upgrade its technology. But, due to a series of economic downturn triggered by the oil shock, the sinking of export prices on raw materials badly affected the balance of payment of Pyongyang and contributed to a massive trade deficit during the late 1970s. Since then, the country was virtually cut off from access to advanced technology and international capital, and its economy began to slow down to develop.

The North Korean economy further deteriorated during the 1980s. In the early 1980s, the North Korean economy started to show the classic symptoms of a malfunctioning planned economy.⁶⁵ The shortages or inefficiency were seen

⁶⁴ Ibid

⁶⁵ Soo-Bin Park. 2003. The North Korean Economy: Current Issues and Prospects. *Paper presented at the conference of the Association of Korean Studies in Canada held at the University of British Columbia, Vancouver. (October 3 – 4, 2003), p.5*

everywhere, including raw materials, energy and hard currency. Furthermore, after years of development, some infrastructure decayed and machinery became out-dated and depreciated. However, unlike some socialist countries, North Korea refused any economic liberalization and stubbornly followed the centralized economic strategy. Then, consequently, stagnated economy was resulted.

1.3. After the Cold War

In the 1990s, North Korea’s economic stagnation turned into a real crisis. Before the collapse of the former USSR, the existence and development of the North Korean economy was primarily depends on the economic assistance from Soviet Union and China. However, since 1991, the former USSR withdrew its support and demanded for payment in hard currency for imports.⁶⁶ In 1989-90, Soviet-DPRK bilateral trade, which provided the DPRK with many vital goods such as chemical fertilizers and crude oil, totally approximately \$1 billion, but in the mid-1990s, it dropped to \$80 million.⁶⁷ As a result, the DPRK consumption of primary energy declined from 25 million tons of oil in 1990, to 17 million tons in 1995. These largely dropped also hindered the basic heavy industrial development in DPRK and most of the factories were forced to cease operation and caused a great problem of unemployment in North Korea.

Table 2.1 Economic Trends in North Korea, 1990-2000⁶⁸

⁶⁶ Soo-Bin Park. 2003. The North Korean Economy: Current Issues and Prospects. *Paper presented at the conference of the Association of Korean Studies in Canada held at the University of British Columbia, Vancouver. (October 3 – 4, 2003), p.5*

⁶⁷ Vorontsov, 146

⁶⁸ Wonhyuk, Lim. 2005. North Korea’s Economic Futures: Internal and External Dimensions. *Paper presented at the Conference on Korea: The East Asian Pivot, organized by the Navel War College, August 26-27, 2004, New Port, Rhode Island, USA. p. 3*



China, even though stepped in to provide assistance and supplied food and oil at a concessionary price, but in 1994 China reduced its export to North Korea. Moreover, in diplomatic sense, China and the new-born Russia also started to develop a formal diplomatic relations with South Korea in the early part of 1990s. These economic and diplomatic pressures further isolate North Korea and pushing it into the edge of collapse.

In Table 2.1, it shows that the general trend of the economic performance in North Korea in 1990 to 2000. In terms of GDP, after the cut off the economic assistance from USSR, the GDP of North Korea dropped drastically from base year 100 in 1990 to around 50 in 1995, which is from \$23.1 billion to \$11 billion. In addition, the trade volume was also decreased tremendously from \$4.21 billion to only around \$2 billion in 1996. Therefore, it demonstrates how the serious of the economic situation in North Korea after the cut-off of economic assistance from USSR.

1.4. Famine: 1995

Because of the lack of food and resource assistance, North Korea response to even intensified the mal-functioning domestic production, such as double-cropping, intensive and uncontrolled production. These measures led to serious soil depletion and lower yields, and the expansion of farm land into hillsides and other marginal land contributed to soil erosion, river silting and eventually, severe flooding.⁶⁹

In 1995, catastrophic floods destroyed a large part of the grain harvest and led to a full and comprehensive famine in North Korea. In the aftermath of the flood, it also destroyed a large share of North Korea's hydroelectric capacity and contributed to the collapse of the energy and industrial and manufacturing production. These circumstances consequently led to a chronic famine widespread took place in North Korea during 1995 to 1998. Estimates vary widely, but the most sober academic research suggests that between 1995 and 1998, the famine killed perhaps 600,000 to 1 million people, or roughly 3 to 5 percent of the precrisis population of approximately 22 million.⁷⁰

1.5. 2002 Reform

Unlike most other commanded economies, North Korea did not introduce any fundamental reforms after the collapse of the Soviet Union. However, some market solutions emerged spontaneously and short-term in nature during the mid-1990s when

⁶⁹ Kokko, Ari. 2004. Economic Reforms and Skill Requirements in DPRK. *Paper presented at the Stanley Foundation*. Available at: <<http://vps.stanleyfoundation.org/initiatives/eenk/papers/Kokko.pdf>>. p. 2

⁷⁰ Noland, Marcus. 2006. Transition from the Bottom-Up: Institutional Change in North Korea. *Comparative Economics Studies* 48, 2: 6.

the official economy failed to provide basic necessities for the population. However, these were, tolerated rather than encouraged by the national leadership.⁷¹ The word 'reform' was not used through officially or explicitly channel, since it automatically implied there were some internal flaw of the 'juche' economy.

It was not until July 2002 that an economic reform package was publicly announced. These reforms were the ever reform that North Korea introduced officially and with such a wide scope of coverage in history. Inside the reform program, it covered both microeconomic incentives and macroeconomic stability, with specifically targeted at the price and wages de-regulation, reform on the public finances system, raising the exchange rate into a realistic level, transforming the collective farming, restructuring the state-own enterprise and establishment of free trade zones.

With the ideological and institutional burden, Pyongyang has been under-taking a centrally-planned economy for more than 50 years. In its economy, market mechanism was deliberately removed and all the economic decisions were made according to the government's wish and plan. But, by adopting measures to improve economic management on July 1, 2002, Pyongyang appears to have chosen a new road by selectively invites some market mechanism into its economy but without any political reform. The July 2002 reform package consisted of five components: prices rising and increase in wages based on performance, enhancement of self-management of enterprises, devaluation of exchange rate, farm reform_and attracting foreign direct investment (FDI).

⁷¹ Seliger, Bernhard. 2005. The July 2002 Reforms in North Korea: Liberman Style Reforms or. Road to Transformation?, *North Korean Review*, Fall 2005, p. 80

1.5.1. Prices rising and increase in wages based on performance

To recover the costs of production and cracking down the underground market activities, Pyongyang adopted far-reaching price reforms. It reduced distortions in relative prices between goods in the formal sector by raising the prices of basic necessities which had been heavily subsidized. For example, the sales price of rice per kilogram in the formal sector was raised from 0.08 won to 44 won, and the procurement price was increased from 0.80 won to 40 won so that the state would no longer have to incur losses on rice transactions.⁷² Moreover, the price of pork was increased from 7 won to 180 won per kilogram, and the price of electricity was raised from 0.02 won to 2.1 won per kilowatt-hour.⁷³ In addition, according to the government announcement, the public distribution system, which used to provide free goods to citizens, no longer provided the most essential of basic necessities nearly free of charge. All transaction would be monetized. Therefore, under these measures, Pyongyang decided to re-install the market price system into its economy in order to reduce the market distortions.

Furthermore, so as to give workers sufficient purchasing power to buy goods at new prices in the formal sector, their wages was raised. On average, workers' wages were increased by 18 times to 2,000 won per month. This wage increase was based upon a rationale that a typical four-member family needs around 4,000 won per month for living expenses. Different categories of workers received increases based on the importance and skill of their work, with soldiers, miners, and scientists receiving

⁷² Wonhyuk, Lim. 2005. North Korea Economic Futures: Internal and External Dimensions. *Paper presented at the Conference on Korea: The East Asian Pivot, organized by the Naval War College, August 26-27, 2004, New Port, Rhode Island, USA*, p.10. Available at: <http://www.brookings.edu/fp/cnaps/events/lim_20051102.pdf>.

⁷³ Ibid

larger increases than office workers.⁷⁴ Performance-based incentives were strengthened as well.

1.5.2. Enhancement of self-management of enterprises

The economic reform in North Korea also gave greater autonomy to local plant managers. The Pyongyang government depoliticized economic decision making at the local level by transferring managerial rights from party cadres to plant managers. The scope of central planning was reduced to major indicators such as total industrial output, construction investment, electricity and steel production; and the authority to formulate detailed production plans (including labor management) was decentralized.⁷⁵ Under this reform, enterprises can sell or export their products by themselves, and earn the capital necessary for their plan. Also, they were allowed to dispose of their products in the market, so long as they met general production targets. In other words, after fulfilling the production obligations, they were allowed to sell what they want and how much they want. Moreover, enterprises could also start any new branches or new businesses, such as hotels, restaurants or shops. Some enterprises even took loans from merchants and other more moneyed individuals to expand their business.

More than that, Cabinet Resolutions No. 24 and No. 27, dated May 5, 2003, officially recognized existing markets and stipulated the establishment of new markets as well,

⁷⁴ International Crisis Group (ICG). 2005. North Korea: Can the Iron Fist Accept the Invisible Hand? *International Crisis Group Report No. 6 (25/4/2005)*. Available at: <<http://www.crisisgroup.org/home/index.cfm?id=3388>>. Accessed when??

⁷⁵ Babson, Bradley O. 2005. The North Korean Economy and the New Asian Economic Order. *Joint U.S.-Korea Academic Studies* 15, p. 122.

with a view toward setting up more than 300 general markets around the country.⁷⁶

The Cabinet Resolutions additionally allowed the state-owned enterprises and cooperatives to participate their economic activities in these markets.

1.5.3. Devaluation of exchange rate

Under the reform, the unrealistically high value of the North Korean won was abandoned. The official rate of exchange was lowered from 2.2 won to 150 won to \$US1. This brought the official rate more in line with the underground black market rate.

1.5.4. Farm reform

In regards to this reform, farmers won the right to cultivate a piece of land, while the government keep owning the land itself, sticking to the socialist principle. This revolutionary market strategy included the idea of 'land contract' which the state still control the ownership of the land but by giving larger autonomy on farmers on the farmland. Under this principle, farmers can distribute their product according to the amount of their labor, after paying the fee, 15%, of their product.⁷⁷ Furthermore, in collective farms in the north, farmland is allocated to individual farmers for cultivation, but what they produce cannot sell to the markets as they have to sell their excess food to the Government procurement agency.

⁷⁶ Wonhyuk, Lim. 2005. North Korea Economic Futures: Internal and External Dimensions. *Paper presented at the Conference on Korea: The East Asian Pivot, organized by the Naval War College, August 26-27, 2004, New Port, Rhode Island, USA*, p.10. Available at: <http://www.brookings.edu/fp/cnaps/events/lim_20051102.pdf>.

⁷⁷ Helgesen, Geir and Nis Hoyrup Christensen. 2007. North Korea 2007: Assisting Development and Change. *Report commissioned by the Norwegian Ministry of Foreign Affairs*, p. 39.

1.5.5. Attracting foreign direct investment

A new emphasis has been placed on the establishment of various types of special economic zones designed to attract foreign investment. However, this is not an entirely new policy. The Rajin-Sonbong region in the north-east of North Korea was set up in 1991, and under an agreement with the South Korean conglomerate Hyundai in 1998, a special tourist venture was set up at Mountain Kumgang.⁷⁸ Under the reform, one of the regions was opened up for foreign investment by the Pyongyang government, called Sinuiju Special Administrative Zone. Within this region, foreign investors were granted some additional investment preferences and protected by a well-developed legal system. Two months later, it promulgated the Kaesong Industrial Zone, with catering for small and medium companies from South Korea investing under implicit protection of Hyundai. This project was regarded as a strategy that would not only benefit the North Korean economy, but also push inter-Korean economic cooperation to the next stage.

3. North Korean Economy in 2005-2007

Actually, most Western observers have been disappointed with what has, or rather what has not, happened after the first set of reforms in July 2002. It is evident that no major steps have been taken, and, as mentioned, an obvious backlash occurred in 2005 when a ban on private grain sales was implemented in an attempt to re-introduce a stringent rationing system.

⁷⁸ McKay, John. 2005. How Significant and Effective are North Korea's "Market Reforms"? *Global Economic Review* 34, 1: 85.

3.1 Lack of substantial changes

After the big reform package issued in July 2002, the Pyongyang government failed to implement any follow-up policy action and substantial policy changes in the following years. From 2005 to 2007, generally, the North Korea authorities were unable to launch large-scale projects, they are focusing on smaller projects of local value.⁷⁹ The reasons for the lack of substantial changes in North Korea economy are:

3.1.1. Slow down the rapid change

On 1 July 2002, North Korea proclaimed the adoption of a new reform policy of 'Economic Management Improvement'. Inside the reform programme, the North Korean government conducted and implemented a historical and comprehensive economic reform at both micro and macro levels. The reform itself demonstrated the North Korea authority risked it in rescuing its devastated economy, such as stimulated the labor incentive by raising wages and strengthening the compensation system, and raising the food prices to a more reasonable and marketable level.

Other than the items listed above, there were over than 10 selected items which were addressed and re-adjusted so that contributed to the revolutionary change of the North Korean economy. Since then, the domestic economy has been undergoing gradually change and the marketing feedback was still carefully monitored by the government officials. Indeed, one of the most disastrous results was hyperinflation. The extraordinary drop in the official won/dollar ratio after 2002 indicated a one-time

⁷⁹ Asmolov, Konstantin, Suslina, Svetlana and Victoria Park. 2007. The Democratic People's Republic of Korea in 2006. Far Eastern Affairs 51.

shift of DPRK financial accounting from a notional to a more realistic level, recognizing that repressed inflation is more destabilizing than open inflation. However, the reports of a steady rise in market prices for food suggested that the Central Bank has the credit window wide open—a policy that can lead to hyperinflation in short order.⁸⁰

As a result, the North Korean authority decided immediately to return to the original point and re-organized the whole set of reform programmes by a more cautious planning. Therefore, in recent years, the changes and transformation occurred in North Korea was rather slow and cautious.

3.1.2. Focus on security/nuclear issue

Handling North Korean affairs, it would be insufficient by considering the economic issues as a separate item without looking at the security aspects. As since October 2002 when North Korean official announced his intention to restart the nuclear program, nuclear issue was overwhelmed as an intervening and decisive variable in driving the attention of the North Korean authority as well as the surrounding Powers and the momentum in concerning the local economy was decreased respectively.

To further complicate the issue, since 2005, North Korea has produced more vigorous and provocative activities and diplomatic pressure on the United States and the world by creating the nuclear crisis. In February and May 2005, Pyongyang

⁸⁰ Thurnton, Judith. 2007. Benchmarking North Korean Economic Policies; Lessons from Russia and China. *Conference Paper presented at "North Korea- Guideposts for Radical Economic Change (8/2/20027)*.

officials announced that North Korea had nuclear weapons and would indefinitely suspend its participating in the Six-Party Talks, and they had removed 8,000 fuel rods from the Yongbyon reactor for reprocessing.⁸¹ Even though the North Korea eventually made concession on agreeing to re-open the fourth round of the Six-Party Talks in late July 2005, the crucial disagreement between Pyongyang and Washington was remained and intensified when the U.S. Ambassador to South Korea Alexander Vershbow labeled North Korea as a ‘criminal regime’ and likened the state to Nazi Germany for its criminal activities.⁸²

The nuclear crisis was further intensified when North Korea raised its brinkmanship by unleashed a volley of seven missiles, included one intercontinental missile that failed 42 seconds after launch, and a mixture of short and long range missiles that did seem to work, in July 2006 and in addition to conduct a nuclear test in October 2006.⁸³ Ironically, this provocative behavior was also coincided with the U.S. government by invoking the ‘Patriot Act’ fingered a Macao bank called *Banco Delta Asia (BDA)* as Pyongyang’s primary money laundering mechanism, which led to the freezing of some \$24 million in North Korean accounts.⁸⁴ These issues hindered the reform progress in North Korea; the government re-prioritized their policy focus from economic reform to security and nuclear issues.

The onset of the nuclear crisis had two important economic effects: It first pushed security calculations to the fore and shifted the policy focus way from reforms; and second it substantially altered the external economic landscape. Sanctions,

⁸¹ CRS. 2006. North Korea: A Chronology of Events in 2005.

⁸² Ibid

⁸³ Ilsoo, Cho David and Meredith Jung-En Woo. 2007. North Korea in 2006: The Year of Living Dangerously. *Asian Survey* 47, 1: 68.

⁸⁴ Babson, Bradley O. 2006. Economic Perspectives on Future Directions for Engagement With the DPRK in a Post-Test World. *The Stanley Foundation Policy Analysis Brief December 2006*.

financial shock associated with the BDA affair, and efforts to arrest illicit activities such as counterfeiting and drug trafficking had consequences. Even the Bank of Korea estimated that North Korean growth turned negative in 2006 for the first time since 1999.⁸⁵

3.1.3. Adverse feedback from the July Reform

In July 2002, North Korea announced to implement a series of economic reform including price reform and depreciation of exchange rate. The most dramatic measure was a profound change in prices and wages. Subsidies were removed, the price of rice went up 549-fold. Wages were increased substantially but on a variable basis, and the won was officially devalued 74-fold.⁸⁶ Since the reform implemented and executed, the instant result was not that successful and some of the data even showed that there was a downside effect of the rapid reform program.⁸⁷

Several main features of the reform measures continued to have an adverse effect in 2005. The first was price reform, whereby the price of all goods in state-operated stores approximates the price in the farmers' markets, with the government making frequent adjustments to reflect the real prices. The immediate effect of this reform in 2002 was hyperinflation, with prices jumping some twenty-five fold.

Table 2.2: North Korea's July 2002 Reform Pricing Structure		
	Before July 2002	After July 2002

⁸⁵ Haggard, Stephan and Marcus Noland. 2008. North Korea in 2007: Shuffling infrom the Cold. *Asian Survey* 48, 1: 110.
⁸⁶ Beal, Tim. 2004. Pyongyang goes to Market: Marketization of the North Korea. *Paper for Virtue in Marketing, Academy of Marketing, University of Gloucestershire, Cheltenham, July 2004.*
⁸⁷ Ibid

Rice	Procurement price	0.8 won/kg	40 won/kg
	Sale Price	0.08 won/kg	44 won/kg
Maize	Procurement price	0.49 won/kg	20 won/kg
	Sale Price	0.06 won/kg	24 won/kg
Source: Hale 2006, p. 82 ⁸⁸			

In the above table, the pricing structure of rice and maize changed significantly after the economic reform in 2002. Before the reform, rice and maize in North Korea was paid up by the government from 0.8 won/kg and 0.49 won/kg to 40 won/kg and 20 won/kg respectively.

Furthermore, in order to raise the productivity of the farmers, the government also announced an incentive for farmers to produce more food for the public distribution system (PDS). Before the reform, the Pyongyang government paid farmers 0.8 won/kg of rice and sold it at PDS centers for the subsidized price of 0.08 won/kg. But, since the July 2002, the government would procure rice at 40 won and sell it for 44 won, thus making a profit of 4 won instead of subsidizing rice.

This market step was originally a positive procedure which allows the new and more market-oriented price system to better reflect market realities. However, unfortunately, as the government concurrently devaluated the won from its artificial rate of 2.15 to the dollar to the more realistic rate of 150 per dollar, in part to better reflect market realities. But, in the absence of a corresponding increase in commodity production has led to the unfortunate phenomenon of too many won bills chasing too

⁸⁸ Hale, Christopher D. 2005. Real Reform in North Korea? The Aftermath of the July 2002 Economic Measures. *Asian Survey* 49, 6: 826

few goods: the resulting hyperinflation has led to the reappearance of a large gap between the official and black market price for food.⁸⁹ Therefore, the wage earners received wages from the state or industrial enterprises failed to buy any sufficient good while the price of commodity rose substantially to an unbearable level.

Secondly, in the trend of decentralization of the industrial sector, the North Korean government began to remove its control and subsidy on industrial enterprises since July 2002. Since the reform, workers at industrial enterprises were taken off the state payroll after being given a one-time payment of 3,000 won to help ease the transition; they then became permanently dependent on the enterprises for wages.⁹⁰ Along with this, enterprises were also gaining autonomy and responsibility to purchase raw materials on the market and choose how to invest profit. Moreover, factory managers were also told to establish actual product prices, wages and production plan. These policy shifts were intended to encourage industrial enterprises to find their own ways to increase productivity and autonomy to develop their production plan.

The market step which to provide more autonomy toward the industrial sector was originally a positive strategy. However, unfortunately, continued energy and raw material shortages have left the average operational rate of most factories at less than 30%; as a consequence, most factories are currently unable to produce enough to pay a living wage.⁹¹

⁸⁹ Ibid, p.827

⁹⁰ Haksoo Paik. 2004. North Korea's Economic Reforms and Nuclear Programs and President Roh's Policy Toward North Korea. *Paper presented at the Brookings Institute Conference on 'President Roh Moo-hyun's First Year: Diplomacy and Domestic Reform*. Washington, D.C. (23/3/2004), p. 9

⁹¹ Hale, Christopher D. 2005. Real Reform in North Korea? The Aftermath of the July 2002 Economic Measures. *Asian Survey* 49, 6: 834

3.2. Detrimental Economic Situation

In fact, the economic performance of North Korea failed to maintain the policy change momentum in 2002 and demonstrated a deteriorating trend since 2005. In 2005, the overall indicators showed there was a moderate recovery as the food aid from China had soared in 2005 from 165,000 tons in 2004 to 146,000 in 2005.⁹² While in the same period, the overall trade between China and North Korea increased 20% in the first quarter of 2005 compared with the same period a year ago. In addition, the Pyongyang government also asked the World Food Program, which provided 90% of foreign food aid to North Korea, to shift the focus from food to development aid and is also asking all resident foreign personnel from 12 private aid groups to leave the country.⁹³ These issues seem like providing a new circumstance that North Korea is gradually recovering from its stagnant economy. But, what is far more controversial is the sign of improvement was ended in 2006.

Ironically, 2006 was the year which broke the hope for measure to recover its economy. The first reason was due to the recurrence of the natural disaster. In the wake of a hurricane in July 2006, monsoon rains pelted the country with a savagery unknown since 1995, washing away farmland and leaving hundreds of thousands of people homeless. The International Federation of Red Cross and Red Crescent Societies (IFRC) reported that merely in countries where they had a presence there were 7507 completely houses, 12585 homeless families, and 13290 hectares of arable lands damaged by the floods.⁹⁴ With more than 1.5 million hectares of arable land was

⁹² Jung-en, Woo Meredith. 2006. North Korea in 2005: Maximizing Profit to Save Socialism. *Asian Survey* 47, 1: 55.

⁹³ Ibid

⁹⁴ International Federation of Red Cross and Red Crescent Societies. 2006. Democratic People's Republic of Korea: Floods. *Information Bulletin* 3.

submerged, food shortages was occurred instantly afterwards and the magnitude of this disaster could match that in the summer in 1995.

Another reason other than natural disaster was the missiles and nuclear test in North Korea in July and October, which highly intensified the hostility between North Korean government with the world community. Immediately after the nuclear test in 6 October 2006, all financial transactions along the Sino-Korean border stopped as trade traffic waned.⁹⁵ With South Korean aid already suspended after the missiles tests in July, Chinese government is also turned to be anger with the provocative activities by North Korea and decided to suspend the food and fuel aid to Pyongyang. These suspensions further intensified the disastrous environment in North Korea as Pyongyang has relied on foreign aid to maintain food subsistence for years, with Chinese aid in 2006 down about two-thirds from its 2005 level, and a humanitarian crisis began to loom again in North Korea.

4. Conclusion

In reviewing the economic situation in North Korea, it did experienced a fast growing industrialization as they received the unconditional support by Soviet Union, including finance, knowledge and technology during the 1950s. So, during that moment, the continued growth in North Korea GDP was even higher than South Korea. However, as the North Korean leader decided to close its national door, no foreign trade or contacts were allowed during the Cold War era. This 'self-protected' rationale was proved to be failure as after the collapse of USSR, the North Korean

⁹⁵ Ilsoo, Cho David and Meredith Jung-En Woo. 2007. North Korea in 2006: The Year of Living Dangerously. *Asian Survey* 47, 1: 72.

economy encountered the greatest challenge which they never experience before: consistent drought and natural hazards.

Mid 1990s was the turning point of the modern history of North Korea. The agricultural failure forced the Pyongyang government seek for international food relief and humanitarian assistance. Since then, foreign contact was re-established and the government also finally decided to open its market for foreign investment. Although the market opening in recent years was not that decisive and complete, it showed some signs of improvement and the irresistible trend of economic liberalization will continue to push the Pyongyang government in opening up its economy to the other world and re-engage to the international community.

Chapter Three

EU-DPRK Relations: From Governmental to Non-Governmental

Since the study on the security and political issues on the Korean Peninsula is explored, the EU is not considered to be a major player and hardly gets mentioned at all. When reporting on North Korea these days, the international media usually refer to Washington's efforts continuing to seek a diplomatic solution with the help of South Korea, Japan and China. Initial hopes that the EU's engagement course could facilitate and encourage a reunification of the two Koreas turned out to be overly optimistic. The prospects for a peaceful reunification, like the East and West Germany case, would not be practical enough when comparing to the situation on the Korean Peninsula, as the current socio-political indicators of North Korea show that the economy in North Korea is significantly much worse than East Germany a decade ago. Moreover, North Korea's concern at this moment is that it might be the next victim of a pre-emptive attack by the US. So, until now, what EU can contribute to the peaceful reunification between the North and South Korea is limited.

Indeed, EU policy-makers claim that whether the EU can continue to seek to engage the DPRK entirely depends on Pyongyang, and its willingness to negotiate security and nuclear issues multilaterally.

1. EU-Asia Relations: In general

In general understanding, EU developed a comprehensive diplomatic relations with Asia for years since the mid 1990s. The European Commission first produced an

overall Asia Strategy paper in 1994 under the title '*Towards a New Asia Strategy*': It was a first effort to take an integrated and balanced view of the relations between the EU and its Asian partners. Much of this is still broadly valid, but at the same time much has changed in both regions since then.

In September 2001, the European Commission adopted a new strategic framework for relations with the region. Its core objective is to strengthen the EU's presence in Asia, raising it to a level commensurate with the growing global weight of an enlarged Union. It has six key points⁹⁶:

1. Contributing to peace and security both in the region and globally
2. Strengthening mutual trade and investment flows
3. Promoting the development of the less prosperous Asian countries
4. Contributing to the protection of Human Rights and to the spreading of democracy, good governance and the rule of law
5. Building global partnerships and alliances with Asian countries
6. Helping to strengthen the awareness of Europe in Asia.

Subsequently, in July 2003, the Commission launched its New Partnership with South East Asia, which sets out a comprehensive strategy for the future EU relations with the sub-region.

Politically, the EU's Common Foreign and Security Policy (CSFP) has its main objectives in order to on one hand safeguard the fundamental interests and integrity of

⁹⁶ The European Union Commission. 2008. *EU in Asia*. (5/9/2008). Available at: <http://www.delsgp.ec.europa.eu/en/eu_in_asia/eu_asia.htm>.

the EU, but also to strengthen and promote peace and international cooperation in Asia. Therefore, so as to build a secure Asia, at the summit level, the EU held regular meeting with China, India and Japan, while the biannual Asia-Europe Meeting (ASEM) brings together of the heads of states of 16 Asian countries with their European counterparts to discuss about the EU-Asia relations. In addition, at the ministerial level, regular meeting also be held with the Association of South East Asian Nations (ASEAN) and enhance the diplomatic cooperation with the countries in South East Asia, such as the EU cooperate with ASEAN to launch an economic sanction against Burma in 2007.

Economically, the EU and Asia take the form of bilateral trade ties, region-to-region partnerships, and multilateral cooperation within the framework of the World Trade Organization (WTO). Regular meetings on trade and trade related matters take place between the EU and Asian countries during the ASEM and other ministerial meetings. For trade, in 2006, the overall trade with Asian partners by EU accounted for about 30% of EU trade, with China, ASEAN and Japan especially.⁹⁷

In terms of humanitarian assistance, The EC also provides substantial humanitarian assistance to Asia. Financial assistance can be provided to victims of conflicts or natural disasters in third world countries, solely on the basis of their humanitarian needs assessments. Over the five years from 2002 to 2006, an average of €138 million per year was provided in humanitarian assistance following natural or man-made disasters in Asia. This accounts for 23% of EU humanitarian aid efforts worldwide. Hence, in various perspective, EU has been deeply involved in Asian

⁹⁷ The European Union Commission. 2008. *EU in Asia*. (5/9/2008). Available at: <http://www.delsgp.ec.europa.eu/en/eu_in_asia/eu_asia.htm>.

issues and consistently built a friendly and partnership relations with Asian countries as well.

2. EU-DPRK: Historical review

2.1. Cold War Era

North Korea first looked to initiate relations with Western Europe in 1955 as part of its policy to move away from bloc diplomacy and to diversify its diplomatic ties, but only insofar as it enabled private-level trade and exchange. However, during the Cold War era, the confrontational ideology overwhelmed the global politics. Therefore, the linkage between the communist bloc and the capitalist bloc, no matter in governmental or non-governmental, rarely happened and the Western European countries had no political intention to form any diplomatic ties with socialist countries in East Asia.

The diplomatic breakthrough between North Korea and the West Europe started to have some positive progress around 1970. This was partly because of the rapprochement between the U.S. and the Soviet Union, but a more fundamental reason was the active and aggressive efforts by the North Korean government to the European countries.

There are two underlying reasons behind the rejuvenating behavior of North Korea. The first was economic. North Korea started its independent national economy based on the *Juche* ideology since the late 1960s. But, the first seven-year (1961-67) development plan was not resulted positively and rejuvenated the poor economy. In

order to overcome this obstacle, North Korea needed the assistance from Japan and the Western European countries, including loans, capitals, technology and industrial machinery. So, there was a tremendous rise of bilateral trade between the North Korea with the West European countries in the early 1970s.

Secondly, 'melting' of the freeze relations between the U.S and China created a favorable environment to improve the general atmosphere on the Korean peninsula in the early 1970s. Since then, the dialogue between the North and South Korea was intensified and resulted in the July 4, 1972 South-North Joint Communiqué.⁹⁸ Taking the advantage of it, North Korea further built its diplomatic ties with the Western European countries in attempting to develop the same diplomatic level as the South Korea, and raising its international status. These diplomatic efforts were quite successful in bridging the relations with those European countries, and they finally resulted in diplomatic relations with Denmark, Finland, Sweden, Norway and Iceland.

However, although at that time North Korea was so eager and active to develop diplomatic ties with the Western European countries, most of the latter still put relations with South Korea first, and were very reluctant to improve relations with the North. Moreover, the partly success of the diplomatic re-engagement was faced with a critical challenge in the mid-1970s. Followed by the economic crisis and oil shock in the early 1970s, it exposed the poor competitiveness of the North Korean products and smashed their export industry to the Western European market. Consequently, relations between North Korea and Western Europe stagnated, both politically and economically.

⁹⁸ Hak-sung, Kim. 2001. EU Involvement in the Korean Question: Background and Implications. *East Asian Review* 13, 2: 42.

2.2. Post Cold War era

In around 1990, when North Korea witnessed the collapsed of the USSR and the downfall of communist regimes in the Eastern Europe, it once again felt a desperate need to resume ties with the Western Europe. Hoping to gain the support of the Western Europe, North Korea often dispatched deputy-ministerial level officials in Foreign Trade and Foreign Affairs to the region.⁹⁹ Since then, the economic ties between the North and the Western Europe gradually improved up to the mid-1990s, but diplomatic relations remained a standstill, especially while most of the former socialist countries in the Eastern Europe resumed its formal diplomatic relations with the South since the 1991 and tensions over North Korea's suspected development of nuclear weapons made European countries extremely cautious about dealing with the North.

The critical issues which changed the attitudes of the European countries to the North happened in the mid-1990s. First, followed by the Germany's lead in 1995, Western European countries and the European Community began providing humanitarian aid to the North as there was a great famine took place in North Korea after the consistent drought (There will be a longer analysis in the later part). In addition, after the signing of the Agreed Framework in 1994 which signified the temporarily end of the nuclear crisis, European Union actively participated in the founding of the Korean Peninsula Development Organization (KEDO) as an Executive Board Member to help pay for light water reactors (LWRs) to be built in North Korea in replacing the original nuclear capacity. Since 1996, the EU has

⁹⁹ Berkofsky, Axel. 2003. EU's Policy Towards the DPRK: Engagement or Standstill? *The European Institute for Asian Studies (EIAS) Publications BP 03/01*, p. 9.

provided a total of \$115 million Euro in funding for KEDO.¹⁰⁰ With these actions, the influence and stature of the EU as a member of the KEDO Executive Board has been strengthened and its delegated authority to negotiate contracts with the KEDO Operation Office has also increased.¹⁰¹

More importantly, the EU has endorsed efforts to ensure peace on the Korean peninsula based on its fundamental position that it actively supports the reconciliation initiative between the two Koreas. In political sense, their relations started at the beginning in December 1998, when the first EU-North Korea political dialogue took place in Brussels. During the meeting, a variety of issues were discussed, such as security issue on the Korean peninsula, economic reform programs, humanitarian issues and transparent distribution of food aid. After the inter-Korean summit talks in 2000, there was also a sign of acceleration of the improvement of the EU-North Korea relations. Formal announcements of the establishment of diplomatic ties between North Korea and European countries began to emerge after the 3rd Asia-Europe Meeting (ASEM) hosted in Seoul in October 2000. As of early May 2001, all EU countries except France and Ireland had formal diplomatic ties with North Korea, and even the European Union was considering establishment of formal relations.

In May 2001, the Swedish Prime Minister Goeran Persson, EU Commissioner Chris F. Patten, and EU High Representative Javier Solana visited Pyongyang and Seoul to meet the leaders of both Koreas.¹⁰² These events marked a significant progress in handling the North Korean issues. The EU Commission announced its

¹⁰⁰ Ibid, p.8

¹⁰¹ Jae-Sung, Lee. 2005. Two faces of EU-North Korea Relations. *The Korean Journal of Defense Analysis* 17, 1: 40.

¹⁰² Jae-Sung, Lee. 2005. Two faces of EU-North Korea Relations. *The Korean Journal of Defense Analysis* 17, 1: 36.

decision to establish diplomatic relations with North Korea on May 14, 2001 and exchanged with North Korea a memorandum regarding the designation of an office for an EU foreign mission.¹⁰³

2.3. After 9-11

Since the Bush administration came into power, pressures have continually been pushing on North Korea, especially related to the issue of the suspecting of possessing nuclear weapons and WMD. The 9-11 terrorist attacks began to raise terrorism as the immediate and new threat to the US and forced the latter to respond militarily. Ironically, the terrorist attack transformed the established international order in the post-Cold War era, and created a new alliance system for a capable collective response against such threats. Nevertheless, the inclusion of North Korea in the 'Axis of Evil' ideology further complicated the North Korean nuclear issue and the peaceful development of the Korean Peninsula.

Since George W. Bush named North Korea as one of the 'Axis of Evil' and put them in the list of supporting terrorism, it undoubtedly deteriorated the peaceful atmosphere on the US-North Korea relations and also deeply affected the EU's proactive actions to improve relations with North Korea. Apparently, the EU did not seek to make any adjustment to its previous policy principles concerning Asia and the Korean Peninsula. Yet, it seems inevitable that the EU must implement considerable changes to its developed policy in the actual implementation.

Followed by the general trend, there was a growing discontent and criticism on

¹⁰³ Ibid

North Korea inside the EU. Despite the rapid improvements in EU-DPRK relations during the 2000-2001 with a series of important political breakthroughs including the establishment of the diplomatic relations between the North and the EU, the lack of progress in changing the attitude toward and mind on North Korea disillusioned the EU continual assistance policy. One of the arguments in line with this criticism stated that since the EU rapidly increased aid or assistance to the North within a very short period of time, North Korea might have wrongly believed that through the EU it could simultaneously manipulate many European countries. Therefore, the EU needed to moderate future assistance activities in terms of quantity and speed of implementation.¹⁰⁴

Throughout the EU-DRPK relations after the 9-11, EU was overwhelmed tremendously by the negative and slow response of the North Korean government, especially on the major issues in which the North refused to make any concessions to the EU. Undeniably, it is particular true about their conflict on the humanitarian issues with the EU has been escalating since 2002. In March 2003, the 59th Session of the United Nations Commission on Human Rights adopted a resolution on the human rights situation in North Korea, an issue the EU had referred to the UN.¹⁰⁵ The EU's proposal of the resolution arose from two arguments. They were generally disappointed by the North Korea's poor human rights record which it did not pay much effort to address. Moreover, the stalemate in dialogue over the North's humanitarian issues also further increased the dissatisfaction among the member states in the EU. Following the EU action, North Korea responded by condemning the

¹⁰⁴ Jae-Sung, Lee. 2005. Two faces of EU-North Korea Relations. *The Korean Journal of Defense Analysis* 17, 1: 41.

¹⁰⁵ Hak-sung, Kim. 2001. EU Involvement in the Korean Question: Background and Implications. *East Asian Review* 13, 2: 42.

EU for intervening their political agenda. This issue was further deteriorated while the EU decided to propose a new UN resolution by strongly demanding for the North to fully cooperate with the EU on the humanitarian condition in 2004. Subsequently, North Korea disregarded this resolution as a justified means to interfere into its internal affairs and stated they would never tolerate the EU 'getting on its nerves'.

Nevertheless, humanitarian assistance to North Korea has maintained at a stable level even though the political atmosphere was not that positive. In 2002, a total of 170 million Euros was spent on humanitarian assistance to the North, of which 8 million Euros was provided for the purpose of food aid. Additionally, the EU planned to build a "Euro-Korea Foundation Training Center" that would serve as a venue for the education of North Korean businessmen.¹⁰⁶

3. EU-DPRK Relations: Governmental Level

3.1. EU Perspective

3.1.1. Motives

What is the European Union's motive for increased interest and involvement in easing tension on the Korean peninsula? This, no doubt, is a question to be raised in contemplation of the EU's future policy toward issues concerning the two Koreas.

First, it is apparent that with the increasing numbers of nations joining the EU, it

¹⁰⁶ European Parliament. 2004. Humanitarian Crisis in North Korea: European Parliament Resolution on the Humanitarian Crisis in North Korea. *Notice no. 2004/C 38 E/001*, p.5

wanted to secure a role and position suitable for its status in the international platform in the 21st century. Through this connection, it has been concentrating on building the global peace, such as to participate in KEDO as an Executive Board member, to provide a considerable amount of agricultural, food and market aid to the North, to mediate the peaceful talks between the two Koreas and to hold friendly dialogue with the North about the missile and nuclear development. These activities have shown that EU is going to make use of North Korea as a stepping-stone to transform its role as a security leader in the global arena.

Second, the EU is aiming at building a political and economic foundation that will enable it to actively create channels into the Asian market, including both Koreas. Since the end of the Cold War, Asia has been regarded as the greatest potential for economic growth in the world. So, naturally, European countries are looking closely and paying a lot of attention to the Asian market. Consequently, the amount of foreign direct investment, infrastructure building, joint-projects and foreign trade between the EU and the Asian market has been increased tremendously in recent years. Even though the total amount of bilateral trade with the North is not that huge at this moment, what the EU is preparing for is the time when North Korean opens its doors and the two Koreas are finally reunited. In other words, the EU is now looking to secure an early chance to hold the unchallengeable seat for the trade with the North in the future.

3.1.2. Strategy: Quiet and Engagement diplomacy

The EU addressed its basic policy on North Korea in the Council Conclusion on the Korean Peninsula in July 1999, which was confirmed by the Council in the

following year. The EU announced that it would take into account the following conditions in improving its relations with North Korea:¹⁰⁷

1. Whether North Korea takes substantial action toward inter-Korean reconciliation, along with the simultaneous implementation of dialogue with affected nations.
2. Whether it acts responsibly regarding its nuclear and missile issues
3. Whether it enhances its humanitarian record and complies with the various mandates of UN protocols and conventions on humanitarian issues.
4. Whether it allows its populace access to foreign aid programs and ensures international NGO activity in the country.
5. Whether it opens its economy and issues visas to European correspondents.

The most detailed document that delineates the EU-North Korea relationship is 'The EC-DPRK: Country Strategy Paper 2001-2004,' which was published by the EU Commission in 2000.¹⁰⁸ In this document, the EU Commission outlined its perceptions of North Korea. Throughout the whole report, the EU Commission not only described the general economic, political and societal situation in North Korea, but also set out policy objectives in the following areas:

1. Institutional support and capacity building for effective development
2. Sustainment management and use of natural resources
3. A reliable and sustainable transport sector
4. Food security and sustainable rural development

¹⁰⁷ Jae-Sung, Lee. 2005. Two faces of EU-North Korea Relations. *The Korean Journal of Defense Analysis* 17, 1: 43.

¹⁰⁸ European Commission. 2005. *The EC-Democratic People's Republic of Korea (DPRK): Country Strategy Paper 2001-2004*. Available at: http://ec.europa.eu/external_relations/north_korea/csp/01_04_en.pdf.

To achieve its policy goals, the EU is following an approach of ‘quiet diplomacy’ seeking to concentrate on policies and initiatives that do necessarily centre on security issues. Since the current nuclear crisis outbreak in October 2002, North Korea is suspected to restart its nuclear reactor and programs so as to manufacture nuclear weapons. By doing so, they expelled the UN weapons inspectors, quitted the Nuclear Non-Proliferation Treaty and started the missile testing in 2005. These developments seem to have put much negative pressure on the engagement policy by the EU.

Nevertheless, the EU’s engagement diplomacy towards the DPRK is seemingly considered by South Korea and Japan, and to a lesser extent by the U.S., to be positive and the EU is indeed regarded as an essential mediator as far as humanitarian and food aid is concerned.

3.1.3. Political perspective

3.1.3.1. Political dialogue

During the Cold war era, there was not any political interaction between the European countries with the North Korea. Since the collapse of the Soviet Union in 1989 and the withdrawal of economic assistance from her old partners, North Korea encountered a massive economic downturn and a great famine in 1995. Since then, European Union (European Community (EC) at that time) started to provide humanitarian aid and supply energy towards the North by participating into the KEDO. The gradual changing bilateral relations finally reached its climax by holding the first political dialogue with the North in Brussels in 1998. Through building a mutual trust and good bilateral foundation, the first dialogue was primarily focused on

economic issue, food aid and nuclear development.

In December 1999, the holding of the second political dialogue in Brussels was also ended with no surprising result and no specific resolution was reached. However, there was a political breakthrough in 2000 while the third political dialogue was being held in Pyongyang and both sides were willing to talk about the possibility of reaching a mutual diplomatic recognition. Moreover, the scope of discussion topics was also widened into human right situation in North Korea, the banning of exporting weapons of mass destruction (WMD) and enlarging the bilateral trade.

But, the 9-11 terrorist attack blurred the prospect for forth political dialogue between the North and the EU in October 2001. Even though both sides still were keen in discussing the issues related to economic assistance, human right conditions and missiles and nuclear selling, the EU-DPRK relation was seriously affected by the tense atmosphere around the Korean peninsula.¹⁰⁹

The fifth political dialogue between the North and EU was re-started in June 2002 through the leadership of the new EU-Presidency (Spain) to pay a diplomatic visit to Pyongyang for an 18-days visit. However, as the new nuclear crisis happened in October 2002, EU was failed to pursue its engagement policy toward the North until late-2003 when EU delegation started its sixth political dialogue in Pyongyang. Although there were several ups-and-downs in the EU-DPRK political relations, it was undoubted that holding political dialogue was the most effective and direct measure to build trust on North Korea.

¹⁰⁹ Chae-Bok, Park. 2003. EU-North Korea Diplomacy and Its Implications for South Korea'. Korea Focus, pp. 66-67.

3.1.3.2. Diplomatic recognition

Since the late-1950s, North Korea began to develop its foreign relations with the outside world by starting to build diplomatic relations. But, during that period, only socialist countries like the Soviet Union, China and some East European countries were on its diplomatic agenda. However, since the collapse of the Soviet bloc in 1990s, North Korea was facing a complete diplomatic isolation and the cut of their economic assistance. Therefore, it would be important for it to re-build its diplomatic network promptly, and Europe would be one of their utmost priorities.

Although the EU itself – through its European Communities Humanitarian Office (ECHO), and individual EU member governments and non-governmental organizations – had become involved to varying degrees in providing humanitarian assistance and food aid to the North from 1995 onwards, these steps had not been complemented by any movement in the diplomatic arena.¹¹⁰ The first breakthrough came with Italy's decision in January 2000 to recognize North Korea. Italy, which thereby became the first of the Group of Seven (G7) advanced countries to establish diplomatic relations with the North and gave over \$5 million aid for economic assistance towards to North.

The October 2000 Asia-Europe Meeting (ASEM 3) in Seoul, concurrent with the historic North-South Korea Summit in June 2000, contributed a gentle atmosphere for the European counterparts for any diplomatic action. Followed by the Sunshine Policy by the Kim Dae-jung government, most of the European countries, including

¹¹⁰ Bridges, Brian. 2003. Western Europe and North Korea: New Openings and Old Problems. *East Asia* 20, 3: 92.

Germany and Britain, began the normalization talks with the North. By the end of 2001, 13 out of 15 EU member states had diplomatic relations with the North.

Eventually, with support from a mission of the European troika, Goran Persson, the Swedish prime minister and the president of the Council of Ministers, Javier Solana, the EU's high representative for Common Foreign and Security Policy (CFSP) and Chris Patten, the commissioner for external relations, visited Pyongyang and met Kim Jong-il and finally agreed to establish diplomatic relations in May 2001.

3.1.3.3. Nuclear and security problem

What EU contributed to the bilateral relations was not only in economic or humanitarian perspectives; security dimension was also included in the bilateral discussion agenda. In the Country Strategy Paper 2001-2004, the EU emphasized specifically that the security concern in Asia was at the top priority on their foreign policy agenda. In this point of view, North Korea was portrait as a potential threat in region and should be included in the foreign policy concern in the EU.

As such, the EU's Common Foreign and Security Policy (CFSP) is designed to safeguard and enhance its shared interest and values, play a constructive role in global politics, and further upgrade its international standing. The promotion of cooperation with Asia, especially on the Korean Peninsula, is thus seen as a valuable opportunity for the EU to solidify its CFSP.

The reason why EU actively participated and eventually became one of the core members of the Korean Peninsula Energy Development Organization (KEDO) was to

control the nuclear weapons development in North Korea. The EU, being aware of the importance of preserving regional stability in Northeast Asia, joined the KEDO as part of its policy to support international efforts to safeguard the nuclear nonproliferation regime. The EU contributed 15 million euros a year, or 75 million euros in total, to KEDO from 1995-2000. In addition, individual EU countries contributed another 7 million euros to KEDO.¹¹¹

3.1.4. Economic perspective

The EU was committed to promoting peace and security on the Korean peninsula as well as inter-Korean reconciliation. Even though the EU was not involved in discussions on security and nuclear issues on the Korean peninsula, indeed, EU was deeply interested in opening the bilateral trade and business opportunity in Pyongyang.

3.1.4.1. Trade

North Korea was long to be one of the poorest countries in the world. During the Cold War, the national economy in North Korea was completely isolated with the pursue of '*juche*' ideology. Without a clear and well-designed state-planning, the North Korean economy deeply relied on the economic assistance from the USSR and China. However, since the collapse of the socialist bloc in the early 1990s, there was a severe decrease of the amount of North Korean trade. According to table 3.1, we can see that the trade amount decreased from \$4.1 billion in 1990 to \$2.5 billion in 1991.

¹¹¹ Chae-Bok, Park. 2003. EU-North Korea Diplomacy and Its Implications for South Korea. *The Korean Journal of International Relations* 42, 4: 66-67.

One of the major reasons for the sharp decrease of the trade volume of North Korea as the cut off of the raw material assistance from Soviet Union contributed to the halt of production in North Korea, and the withdraw of capital inflow from the communist bloc also stopped the industrial development in North Korea.

The great famine in 1995 even deteriorated the domestic economy from the edge of collapse. The consistent drought in North Korea destroyed the agricultural industry and energy provision. During that period, North Korea was completely short of a sufficient supply of food, electricity, energy, infrastructure and hard currency for importation.

Table 3.1: North Korea Trade Index: 1990-2002 (US \$million)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Export	1773	945	933	990	858	736	727	905	559	515	556	650	735
Import	2437	1639	1622	1656	1242	1316	1250	1272	883	965	1413	1620	1525
Total	4,170	2,548	2,555	2,646	2,100	2,052	1,977	2,177	1,422	1,480	1,969	2,270	2,260

Table 3.2: EU-DPRK Trade Amount: 1989-2002 (US \$million)

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Export	56	100	119	173	117	115	92	110	99	130	62	117	70	87
Import	140	139	147	159	176	202	216	223	229	224	137	170	241	303
Total	196	239	266	332	293	317	308	334	328	354	200	287	311	390

The EU, along with China and Japan, is among the major trading partners of North Korea. However, with the scale of bilateral trade amounting to only some \$200

million to \$400 million a year, from the EU perspective, North Korea does not rank among the EU's significant trading partners. Since 1996, EU was expanded to 15 members. Regarding to table 3.2, it shows that the EU-DPRK trade gradually increased to a peak of \$350 million in 1998. In 2000, while EU normalized the diplomatic relations with the North, there was a rapidly jumped on their bilateral trade, with 22.5 percent in 2001 over the previous year.

3.1.4.2. Economic Assistance

Through various channels, the EU has been supporting international efforts to ensure peace and stability on the Korean Peninsula by playing a positive role in promoting progress in inter-Korean reconciliation and providing assistance to help North Korea to overcome its economic difficulties. EU assistance to the North, which has included food aid, support for improvement of its agricultural sector and infrastructure, and humanitarian relief activities, amounted to \$280 million as of the end of 2000.¹¹²

3.1.4.3. Food aid

Geographically, North Korea is surrounded by mountains, and the ratio between arable lands with population is one of the lowest in the world. This agricultural problem was further deteriorated while there was a great famine occurred in North Korea in the mid-1990s. However, this structural and policy crisis was failed to address because the North Korean government resisted engaging a huge amount of

¹¹² Ruediger Frank. 2002. EU-North Korean Relations: No Effort Without Reason. *International Journal of Korean Unification Studies* 11, 2: 92

import from the outside world. Therefore, it was undoubted that food aid was the only available method.

Table 3.3: EU Assistance to the DPRK 1995-2002¹¹³

TOTAL	393 million euro
Food Aid and Structural Food Security Assistance	222 million euro
Humanitarian Assistance	115 million euro
Technical Assistance	35 million euro

Table 3.4: EU Food Aid to the DPRK 1997-2000¹¹⁴

DONOR	BUDGET
Bilateral	106 million euro
Donations through WFP	50 million euro
Donations via European NGOs 94	11 million euro
TOTAL	168 million euro

The EU has been providing sufficient food aid since 1990s, via the Food Aid and Food Security budget line, supporting vulnerable people in the DPRK and in response to DPRK’s appeals for assistance after a severe period of natural disasters and structural economic crisis. For example, in regards to the Table 3.3, EU has been providing \$222 million euro food assistance to North Korea from 1995 to 2002. In terms of donor strategy, from the table 3.4, we can see that most of the food aids were basically taken by bilateral donor, which is about \$106 million euro.

¹¹³ Berkofsky, Axel. 2003. EU’s Policy Towards the DPRK: Engagement or Standstill? *The European Institute for Asian Studies (EIAS) Publications BP 03/01*, p. 23.

¹¹⁴ Ibid, p.29.

Initially a food aid assistance program, it had increasingly become oriented towards agricultural rehabilitation and production with a view to a more sustainable approach towards increased food security. In 2000 and 2001 then, the EU has started to focus less on providing traditional food aid and has turned to provide agricultural support, including fertilizers, and put a focus on deforestation and water supply.

3.1.4.4. Technological Transfer

The previous paragraphs showed apparently that there was an immediate need to revive the national economy in North Korea. Due to the fact that there had been a lack of high-tech assistance, the North Korean government was by no means but to seek for any potential technological assistance from the foreign countries. Unlike China and Vietnam, where the governments seemed stable and economic reform is likely to be attempted in carefully planned steps, North Korea was more an industrial rather than an agricultural country so that it faced immediately some of the same problems as experienced by the countries of Central and Eastern Europe in upgrading the industrial infrastructure and adapting its scientific and technical capabilities for urgently needed civilian goods and equipments. Meanwhile, the collapse in agricultural production, environmental degradation and human health and privation problems needed to be reversed.¹¹⁵

Therefore, the EC-DPRK Country Strategy Paper (CSP) set out the framework and objectives for technical assistance projects in North Korea. This project provided training in market economic principles and projects were designed to support and

¹¹⁵ European Commission. 2005. *The EC-Democratic People's Republic of Korea (DPRK): Country Strategy Paper 2001-2004*. p. 20. Available at: <http://ec.europa.eu/external_relations/north_korea/csp/01_04_en.pdf>.

promote sustainable management, efficient use of natural resources in the DPRK, as well as institutional support and capacity-building.

The National Indicative Programme (NIP), a followed-up and amendment of the Country Strategy Paper, covered a period of three years (2002-2004) and foresees 15 million Euro for technical assistance projects.¹¹⁶ In the table 3.5, it revealed that inside the NIP, the major focus of their technical assistance project was the institutional support and capacity, as it was designed to train the local officials in understanding the international trade issues and market economy knowledge.

Table 3.5: National Indicative Programme (NIP) Technical Assistance Projects:
2002-2004¹¹⁷

Projects	Budget	Activities (Selection)
Institutional support and capacity building	7 million Euro	Training in key ministries, study tours to the EU; training for ministry officials on international finance, international trade, market economy principles
Sustainable management and the use of natural resources	3 million Euro	Training, technical advice and transfer of know-how to manage the energy sector in a sustainable way; training

¹¹⁶ Berkofsky, Axel. 2003. EU’s Policy Towards the DPRK: Engagement or Standstill? *The European Institute for Asian Studies (EIAS) Publications BP 03/01*, p. 24.

¹¹⁷ Ibid

		to improve energy production and energy efficiency
Sustainable rural development actions	5 million Euro	Training and transfer of technical expertise promoting sustained rural development; training in the field of water resources management and soil quality production

In fact, the first pilot project which EU provided to North Korea was given in February 2002. This pilot project was used to assess the technical assistance needs and to identify areas in which the Commission could launch other pilot projects. The results of the fact-funding mission were presented to a donor co-ordination meeting of Member states and other partners, such as the U.S., Japan, South Korea, Canada and Australia in Brussels on March 16, 2001 in Brussels. The expert group report identified the following the priorities with regards to North Korean needs¹¹⁸:

- Training, such with regards to institution-building
- Technical advice and assistance on how to run the DPRK energy system
- Rural development
- Transport and infrastructure

¹¹⁸ European Commission. 2005. *The EC-Democratic People's Republic of Korea (DPRK): Country Strategy Paper 2001-2004*. p. 20. Available at: http://ec.europa.eu/external_relations/north_korea/csp/01_04_en.pdf.

Since then, there were various pilot projects started, such as the “Pilot Project in Training Institutional Support” with a budget of 940,000 Euro in February 2003, and “Pilot Project in the Energy Sector” with a budget of 976,100 Euro in 2004.

3.2. DPRK Perspective

3.2.1. Motives

Since North Korea has consistently sought to improve relations with Western European countries since the 1970s, it can be concluded that there are three underlying calculations behind such strategic move: Open its door and allow reform, maximized its diplomatic advantage and the feedback on the hard-line policy by the Bush Administration.

In addition, it was surprising that Pyongyang agreed to consult the human rights issue with Germany during the formal ties establishment. Therefore, we can try to investigate what were the underlying motives of the North to start its diplomatic relations with the EU.

First, one of the most important motives behind it was its intention to open its doors and allow reform. Considering the North Korea’s domestic policies since the early 1990s, it was undoubted that the expectation of an open and engaging North Korea was not that optimistic. However, in the mid-1990s, the great famine and pro-longed economic problems accerlerated the demand of the North for economic assistance, technology transfer and even the possibility to invite some foreign investment and joint-projects. Therefore, through an active and engaging diplomacy,

North Korea could improve its national economy and political image with the help from the European countries.

Second, most view that the real motive behind North Korea's recent EU policy was a part of its diplomatic strategy. The recalcitrant country's recent gesture was a carefully calculated tactic aimed at using recent developments in the international environment to maximize its advantages and maintain its regime. Pyongyang probably had two political motives: one was to try to soften down the hostile stance of the US on the North, while it could make use of the EU as a counter-balancing tool against the US. Moreover, through a deep and friendly consultation of the missile defense (MD) and the human rights issue with the EU, North Korea could gain full support from the EU and even the international community about the unjustified boycott by the US on those issues.

Third, by fully utilizing the role and image of the EU, North Korea could look for a positive identity to enter the international community with the help from the EU. Since the end of the Cold War, the North had been completely overwhelmed by its relations with the US for a sovereignty recognition and national survival. However, as the current Bush administration was ironically taking a hostile view on the North and refused to make a diplomatic concession, the North, in order to find an alternative, could make use of the friendly and cooperative image of the EU which could help them further engage in the global community as a better replacement of the US in its diplomatic options.¹¹⁹

¹¹⁹ Hak-sung, Kim. 2001. EU Involvement in the Korean Question: Background and Implications. *East Asian Review* 13, 2: 42

3.2.2. Strategy: Pragmatic but gradually open

Different from the United States, North Korea has adopted a 'pragmatic strategy' toward the European Union (EU). As discussed in the previous part, Europe was one of the most important allies and origin of supports for North Korea since the Cold War era. The Soviet Union provided endless supports, economically and militarily. However, since the collapsed of USSR and the political reform took place in Central and Eastern European countries in the early 1990s, the economic crisis and diplomatic support was intensified and cut-off so that the bilateral relations between Europe and North Korea was diminishing.

But, as EU developed as a vital player in the world affairs, especially actively involved in the North Korea issues. It showed that it's strategically important for the North to rebuild its cooperative relations with the European countries. This intention was further stimulated as EU participating in the Korean Peninsula Energy Development of Organization (KEDO) project, which spearheaded its engagement first in North Korea's nuclear problem, then through food assistance, then economic relations, and finally through an improvement in overall relations. This thinking coincided with EU policy which decided to further participate in the Asian arena and the U.S. protagonist foreign policy toward to the North.

3.2.2.1. Pragmatic policy

Critics at times suspect that North Korea's interest in the EU is more 'tactical'

than 'genuine' seeking to achieve greater international recognition.¹²⁰ North Korea wants to take the utmost advantage of the EU with a view to softening the Bush administration's hard-line policy. That applies especially to the establishment of the EU-DPRK political dialogue, is being argued. This seemed indeed to be the case when Pyongyang urged the EU to put pressure on the U.S. to agreeing to talk to North Korea on a bilateral level in February 2003.¹²¹ This rationale coincided with the general belief of EU as they promote multilateralism and protect the balance of power in world politics, North Korea believes that these factors will work in its interest.

In facing the current nuclear crisis, Pyongyang expects the EU to take an active role. It is indeed that the last agreement that made between the U.S. and North Korea in the previous nuclear crisis in 1994 was only a temporal solution. After signing the agreement, North Korea would be able to maintain its regime through various crises that might occur in the course of a nuclear game, and it longs to break through its continuing food and economic problems by playing the new nuclear card.¹²²

In recent years, the U.S. government, ruled by the Bush Administration, implemented various means such as economic sanctions and selective containment in nonmilitary fields so as to prohibit the further development of the nuclear capabilities in North Korea. Under these measures, it's highly probably that the U.S. would take military action against North Korea if the North decides to re-start its nuclear program or smuggles the nuclear materials to the terrorists. Therefore, the particular reason why North Korea wishes to maintain relations with the EU is a precautionary measure,

¹²⁰ Berkofsky, Axel. 2003. EU's Policy Towards the DPRK: Engagement or Standstill? *The European Institute for Asian Studies (EIAS) Publications BP 03/01*, p. 14.

¹²¹ Ibid

¹²² Hun-Kyung, Lee. 2007. North Korea's Desired Strategy and Approach toward the European Union. *North Korean Review*, Spring, p. 51.

to prevent a stalemate between North Korea and the U.S.¹²³ It is also seeking an alternative in case any clash arises or there is deterioration in the U.S.-North Korea relations, so as to overcome diplomatic isolation and to extend its communication networks.

On one hand, Pyongyang hopes that the EU will ease the Bush administration's hard-line policy stance on the nuclear issue. This expectation derived from the fact that the EU shows to certain extend of flexibility on the nuclear issue and take a serious dialogue and prefer a diplomatic and multilateral way in the process of dealing with the nuclear crisis. On the other hand, Pyongyang also expects the EU can perform as a mediator in bridging the cleavages between the North and the United States. On countries' basic standings, it's belief that the EU can play such a role at a critical moment when neither North Korea nor the U.S. can make any compromise. It is also the fact that Pyongyang does not believe Japan or South Korea, both being on the U.S. side, can play such a mediating role which can get rid of the U.S. influence. Unlike those countries, EU might apply pressure on Bush administration as it believe that diplomatic resolution can pursue a better result than any other means. Therefore, in strategically speaking, Pyongyang selectively and pragmatically keeps a friendly relation with the EU as it can be a potential mediator in the nuclear crisis.

3.2.2.2. Open Policy

Concerning the relations between Europe and North Korea, given its historical background, it's essential that North Korea was able to maintain good relations with Central and Eastern Europe countries during the Cold War era, such as the North

¹²³ Ibid p.52.

established diplomatic relations with Sweden, Norway, Finland, Denmark, Iceland and Portugal in the mid 1970s.

In regards to the previous parts, since the end of the Cold War era, North Korea has pressed ahead to normalize and improve relations with Western European countries, which tried to move away from its lean-to-one-side diplomacy toward nations that were traditionally friendly to it, such as the socialist countries. So, after the collapsed of Soviet Union, North Korea developed its new open policy with improving its relations with capitalist European countries, which wanted to avoid the image of being portrayed as a rogue state. Therefore, after rounds of diplomatic discussion, the European Commission, in consultation with EU member states, decided to normalize relations with North Korea in order to facilitate the EU's efforts in support of conciliation in the Korean peninsula, and in particular to support economic reform and easing of the acute food and health problems in North Korea.¹²⁴ To be sure, North Korea's *rapprochement* with the EU and obtaining economic assistance is one of the great steps which open its door to the European counterparts.

Other than diplomatic opening, North Korea also pursues its open policy with the European countries in focus on obtaining food aid and other assistance. In light of North Korea's serious food situation and the death because of starvation caused more than several hundred thousands to 3 million people. It's noteworthy that the Pyongyang government called for food aid and food security programs from EU contributed to a huge amount of assistance when comparing with the other countries. The European Commission has become increasingly oriented toward humanitarian

¹²⁴ Hun-Kyung, Lee. 2007. North Korea's Desired Strategy and Approach toward the European Union. *North Korean Review*, Spring, p. 51.

assistance such as healthcare, medical care and agricultural rehabilitation with a total of \$332 million Euro since recent years.¹²⁵ One of the reasons why North Korea wants to obtain more and more food from the EU because it tends not to impose any political precondition on the humanitarian assistance. Therefore, North Korea has been focusing on luring humanitarian assistance from the EU.

In addition, North Korea desires to open its economic relations with the EU in order to overcome its economic difficulties. It's because that unlike the American companies, EU firms are not subject to restrictions on investing in North Korea. For example, there were about 20 financial institutions and individuals, mostly from Europe, under the umbrella of the London-based Northern Development Consortium, have set up a capital company in North Korea to herald further reform of the secretive state's communist economy and signal increased openness toward foreign investment.¹²⁶

Concurrently, North Korea also fully utilized its close relations and expanding is trade, including import and export, with the EU. North Korea has imported equipment from European countries, and has used their technical guidance on the rapid building of new factories and on factory modernization in order to develop its manufacturing base.¹²⁷ These policies were further consolidated in the EU-North Korea Country Strategy Paper (CSP) for 2001-2004. It showed that North Korea has high expectations for EU development assistance and long-term investment, concentrated on institutional support and capacity building, sustainable management and use of

¹²⁵ Ibid, p.53

¹²⁶ Ward, A. 2003. European Investors Move into N. Korea. *Financial Times* (21/11/2003)

¹²⁷ Frank, Ruediger. 2002. EU-North Korean Relations: No Effort Without Reason. *International Journal of Korean Unification Studies* 11, 2: 100.

natural resources, and a reliable and sustainable rural development.¹²⁸ Furthermore, it has designated the euro, rather than US dollar, as the foreign currency in domestic circulation. All these measures will be important to assist North Korea economic recovery, contributing to the solution of its food crisis and modernize its agricultural and resource management.

Therefore, in regards to the EU-DPRK relations, the pragmatic with opened rationale behind the North Korean officials can be based on two dimensions: taking EU as a diplomatic mediating role between US and North Korea, and open its economy, including trade and technology, in order to draw the EU humanitarian assistance and technological transfer for stimulating the economic recovery in North Korea.

4. EU-DPRK relations: Non-Governmental Level

In the last part, there is a deep discussion about how and why the EU-North Korea relations being developed from in governmental perspective. In the following part, we will turn the focus shift on the opposite side, considering the importance of non-governmental relations between EU and DPRK in recent years. During the past few years, Non-government organizations (NGOs), especially the aid agencies, played a significant role in affecting the bilateral relations between EU and DPRK.

From those agencies' experiences, what they experienced in North Korea was differed significantly in numerous aspects from what they have previously experienced in humanitarian missions in other countries. No matter the working and

¹²⁸ Hun-Kyung, Lee. 2007. North Korea's Desired Strategy and Approach toward the European Union. *North Korean Review*, Spring, p. 55.

living conditions, negotiation practices and restrictions on freedom of movement and information accessing, showed clearly that those European NGOs encountered a situation that they never experienced and posed a great challenge on their missions. In the following part, we will briefly introduce the major missions of the European NGOs worked in North Korea during the last few years and what are the limitations and debates that they faced.

4.1. NGOs and North Korea

The rise of NGOs presence in North Korea was one of the most eye-catching issues as the transnational network began to establish between North Korea and other world in the recent years, especially after the famine happened in 1995. Inside this relationship, the North Korean government invited and welcomed some NGOs from various countries to establish their oversea branches in Pyongyang and start their humanitarian projects.

In terms of countries, there is wide variety of countries which started their missions in North Korea, such as U.S., South Korea and Europe. However, in particular, NGOs from the US and South Korea are subject to continual suspicion, which among other things meant that they are not allowed a permanent working place in North Korea. South Korean developmental help organizations have received relatively good access to North Korea under the Sunshine policy, North Korea has concentrated significantly since mid 2002 on state research programs and fostered sharp distrust against South Korea NGOs. However European NGOs, which are deemed to be less dangerous, have enjoyed more freedom in comparison to South Korea and the US, for example, the privilege of having a permanent working place in

A considerable problem for all NGOs in this area is not only the persistent state monitoring, but the limited access to the people. A need assessment, for example, of nourishment help can not be coordinated with the hungry; rather it must be worked upon within the state guidelines. The same goes for implementation analyses. Nevertheless it can be said that the work of foreign development help organizations has, up to now, averted a new famine.¹³⁰

In terms of projects, NGOs in North Korea focus on various types of missions. Primarily, most of the NGOs now working in North Korea are providing humanitarian aids and assistance to the local people, for example, Medecins Sans Frontieres (MSF) and Oxfam. In addition, some other NGOs are promoting human rights protection, such as Amnesty International and Human Rights Watch. Moreover, there are some religious NGOs who are providing donations and development projects in North Korea in order to transform the living standard in North Korea, such as the Religious Society of Friends and Christian Friends of Korea. Lastly, some NGOs are also actively and consistently providing economic knowledge transfer towards the North Korean officials in recent years so as to assist their economic reform in the knowledge level, such as the Friedrich Naumann Foundation.

4.2. Humanitarian NGOs in North Korea

¹²⁹ Snyder, Scott. 2003. The NGO Experience in North Korea. In L Gordon Flake and Scott Snyder. eds., *Paved With Good Intentions: NGO Experience in North Korea*. Westport, Connecticut, London: Praeger, p. 5.

¹³⁰ Ibid

4.2.1. Period: 1995-1998

Numerous European NGOs have been working with humanitarian efforts in North Korea. As of October 2002, eight European NGOs had resident status in the DPRK and one NGO was providing aid without having permanent residence in the country. Five other NGOs that had worked in North Korea in the past had decided to withdraw.¹³¹

NGO activities in North Korea started during the massive flooding happened in 1995 and the Pyongyang government inevitably launched the international assistance. The first European NGO working in DPRK was Medecins Sans Frontieres (MSF), which conducted a health assistance program from November 1995 to January 1996. Generally, during the first phase of the NGOs engagement, European NGOs sent food and nonfood items (medicine, clothes, etc.) through the UN World Food Program (WFP).

In 1997, nine NGOs received residency status in the DPRK, such as Children Aid Direct (CAD, UK), Concern Worldwide (Ireland) and Oxfam Great Britain (Oxfam GB) etc. Also, the majority of North Korean aid projects undertaken by European NGOs are supported by the European Commission's Humanitarian Aid Office (ECHO) and by public funds from individual European governments.¹³² In tactical speaking, it is believed that the DPRK government tried to use the engagement of European NGOs as a counterweight to other countries considered 'hostile', such as United

¹³¹ Schloms, Michael. 2003. The European NGO Experience in North Korea. In L Gordon Flake and Scott Snyder. eds., *Paved With Good Intentions: NGO Experience in North Korea*. Westport, Connecticut, London: Praeger, p. 49.

¹³² Schloms, Michael. 2003. The European NGO Experience in North Korea. In L Gordon Flake and Scott Snyder. eds., *Paved With Good Intentions: NGO Experience in North Korea*. Westport, Connecticut, London: Praeger, p. 49.

States, South Korea and Japan. Therefore, during this phase, only European NGOs are granted to have permanent offices in Pyongyang.

From 1996 to 1998, European NGOs were active in a variety of sectors. Food delivery and food security programs aiming to improve the nutritional status of beneficiaries in the short-and-mid-term were carried out by most NGOs.¹³³ As most of them followed the requests of the DPRK authority, some of the NGOs worked closely with the government plan and located their project in response to the government request. But some other NGOs took a different approach by locate their projects in those regions of the country where the humanitarian situation was reported to be particularly difficult.

Within this period, even though the European NGOs were the first international assistance which invited and requested by the Pyongyang government, it's by no means that NGOs still face numerous hindrances during their mission in DPRK. First, the NGO staffs were confronted with considerable constraints on movement. Movement within Pyongyang city was restricted; even driving a car without a driver was usually prohibited.¹³⁴ In this sense, the movement of the NGO staffs, especially those aid workers, received the hardest restrictions that totally prohibit their freedom to work under the inspection of the DPRK officials. Secondly, all international agencies, including UN agencies, had access only to specific DPRK counties. In May 1997, for instance, 159 out of 211 counties were accessible. The remaining counties were off-limits.¹³⁵ As the government stated clearly that due to the national security

¹³³ Ibid, p.50

¹³⁴ Ibid, p.51

¹³⁵ Shin-Wha, Lee. 2003. International Engagement in North Korea's Humanitarian Crisis: The Role of State and Non-State Actors. *East Asia* 20, 2: 85.

concern, no aid workers or humanitarian distributions were allowed to work or carry out in nonaccessible areas. Thirdly, even in those accessible areas, the constraints on movement have remained. For example, when an agency requested access to a county where another agency was working, access was often denied. Moreover, all aid agencies were required to inform the Flood Damage Rehabilitation Committee (FDRC) one week in advance which institutions they planned to visit.¹³⁶ Lastly, on monitoring visits, NGO staffs were accompanied by local authorities and representatives from FDRC. Within the agency, the stock, including food, medicine and other materials were checked before any mission started, and the communication with individuals during monitoring visits was only possible through an interpreter assigned by the FDRC. In conclude, during this period, emergency rescuing was the major tasks by the European NGOs, which is the first NGO approached the DPRK soil, and the movement was kept under a tightly controlled by the local officials.

4.2.2. Period: 1998 -1999

After the first period of the European NGOs experiences in North Korea, there was a big change of their mission as some of them decided to quit their projects in DPRK in 1998-1999. MDM was the first NGO to withdraw from North Korea. It decided to end its project after 10 months of work. Not long after MDM, MSF also made the same decision in September 1998.¹³⁷ After that, a shocking issue noticed as one of the most influential European NGOs, Oxfam GB, also decided to withdraw from North Korea. The first two organizations were the only NGOs in the DPRK

¹³⁶ Schloms, Michael. 2003. The European NGO Experience in North Korea. In L Gordon Flake and Scott Snyder. eds., *Paved With Good Intentions: NGO Experience in North Korea*. Westerport, Connecticut, London: Praeger, p. 52.

¹³⁷ Schloms, Michael. 2003. The European NGO Experience in North Korea. In L Gordon Flake and Scott Snyder. eds., *Paved With Good Intentions: NGO Experience in North Korea*. Westerport, Connecticut, London: Praeger, p. 54.

focusing on emergency medical and nutritional programs, that is, short-term famine relief projects consisting of food and medical assistance. On the contrary, the Oxfam GB conducted long-term perspective programs such as water-treatment and sanitation improvement projects in North Korea.

The withdrawn of the three organizations demonstrated a great shock to the whole assistance projects in North Korea. But, it's not completely unanticipated. As recalled one of the MDM nutritionist noted¹³⁸:

Our aim was to bring assistance – in direct contact with the people – to a population in an emergency situation. However, we were deprived of the liberty of movement, of the liberty to communicate, and of the right to care for our patients. We had no access to the people and no access to information that would have allowed us to evaluate our programs.

In their experiences, it seems clear that the European NGOs staffs wouldn't have any interaction with the North Korean counterparts. Because of this, the staffs witnessed a lack of knowledge and poor treatment skill of those doctors and workers in North Korea.

Other than that, during the course of their engagement in North Korea, the MSF concluded that their nutritional programs did not reach the target group of severely malnourished children under the age of five.¹³⁹ Moreover, as the MSF, requested the FDRC to give a list of all health facilities in each county. But, as the staffs from MSF

¹³⁸ Ibid, p.55

¹³⁹ Reed, Edward P. 2005. The Role of International Aid Organizations in the Development of North Korea: Experience and Prospects. *Asian Perspective* 29, 3: 54.

saw there were some institutions that were not mentioned on the lists. Therefore, it is somehow the local officials cheated the MSF staffs in this circumstance.

Oxfam GB, which provided different forms of assistance, was providing some long-term assistance to the local people in North Korea. Although the role that they played is much more important than those NGOs which were providing primarily food, it didn't mean that the respect paid by the Pyongyang authority was much higher than those emergency-oriented NGOs. Like those relief organizations, Oxfam GB came to conclude that a number of fundamental NGO principles were not respected in the DPRK contributed to their withdrawn.¹⁴⁰ This phenomenon was especially serious when they would like to conduct direct contact with the people in hospitals, consumers and households, and even they're told not to conduct any medical test on the water and covered the fact that the spread of water-borne diseases. Therefore, these organizations were deeply disappointed in the situation in North Korea.

4.2.3. Period: 1998 to present

The focus of European NGOs in North Korea has changed in recent years. After the withdrawn of MDM, MSF and Oxfam, no nutritional or therapeutic programs have been implemented by NGOs. In addition, food aid, compared to the first years of NGO engagement in North Korea, is playing a far less important role.¹⁴¹ In regards to this, the WFP has taken up most of the workload and programs of food aid and

¹⁴⁰ Schloms, Michael. 2003. The European NGO Experience in North Korea. In L Gordon Flake and Scott Snyder. eds., *Paved With Good Intentions: NGO Experience in North Korea*. Westport, Connecticut, London: Praeger, p. 58

¹⁴¹ Ibid p.59.

provide food rations to vulnerable groups in Pyongyang.

In general, European NGOs now turn its focus from short-term food aid to mid-term rehabilitation projects. The main fields of activity are agricultural rehabilitation and food security programs. For example, the Children Aid Direct (CAD), a British NGO, provided projects including a food security program (rehabilitation and construction of greenhouse and delivery of seeds) and a winter support program (distribution of clothing and boots to children in institutions).¹⁴² In addition, CAD also carried out a rehabilitation program in the Hamhung Maternity Hospital¹⁴³ and a water and sanitation program. Another European NGO called Triangle-Generation Humanitaire, a French-based NGO, established an office and is providing agricultural support in North Korea. In South Pyongyang, Triangle assists nine cooperative farms with agricultural inputs and soil rehabilitation.¹⁴⁴ The program also included rehabilitation of irrigation systems and environmental protection projects. Thus, since 1998, most of the European NGOs started to shift their focus from providing instant food aid to a more long-term re-development project in North Korea.

4.3. Debate among European NGOs: Hard-landing vs. Change through Rapprochement?

In the previous part, we can conclude that European NGOs has done tremendous

¹⁴² Schloms, Michael. 2003. The European NGO Experience in North Korea. In L Gordon Flake and Scott Snyder. eds., *Paved With Good Intentions: NGO Experience in North Korea*. Westport, Connecticut, London: Praeger, p. 60.

¹⁴³ Hamhung is North Korea's second largest city, and the capital of South Hamgyŏng Province.

¹⁴⁴ Schloms, Michael. 2003. The European NGO Experience in North Korea. In L Gordon Flake and Scott Snyder. eds., *Paved With Good Intentions: NGO Experience in North Korea*. Westport, Connecticut, London: Praeger, p. 60.

works in providing humanitarian assistance to North Korea during the last few years. However, we also witnessed there were some influential NGOs which eventually decided to withdraw their relief and development programs in North Korea. These facts truly revealed a great debate among two groups of European NGOs who are working in North Korea, whether skeptical towards the effectiveness of the humanitarian action or being optimistic on the aid programs would eventually help to make changes happened in North Korea.

The 'Hard Landing' strategy, supported by a small group of large NGOs likes MSF and Oxfam, questions whether assistance to North Korea even makes sense. In the view of these organizations, international aid does not reach those in greatest need. In addition, the aid is a kind of perversion, in effect stabilizing the totalitarian regime and 'feeding the dictator'.¹⁴⁵ Those NGOs advocated this standing argues the North Korean government uses humanitarian aid to stabilize its power and deeply suspected that about North Korea's willingness to integrate with the international community. One of the examples that they always cite is that government used the Public Distribution system (PDS) to distribute the food aid. Ironically, PDS is seen as the main instrument of controlling the North Korean society. Every citizens in North Korea received food and necessities from the government distribution and the amount of distribution is determined by his or her political loyalty and that of his or her ancestors.¹⁴⁶ Since all food aid is channeled through the PDS, some of the citizens who are categorize as lower class or in the edge of starving to death doesn't mean they would receive more food assistance. Therefore, they were extremely

¹⁴⁵ Beck, Peter M. and Nicholas Reader. 2005. Facilitating Reform in North Korea: The Role of Regional Actors and NGOs. *Asian Perspective* 29, 3: 35.

¹⁴⁶ Schloms, Michael. 2003. The European NGO Experience in North Korea. In L Gordon Flake and Scott Snyder. eds., *Paved With Good Intentions: NGO Experience in North Korea*. Westport, Connecticut, London: Praeger, p. 74.

disappointed with the political reality in North Korea and finally withdrew from the assistance campaign.

The 'Change through rapprochement' is the principle which describes the policy advocated by those European NGOs still providing aid to North Korea. As opposing to the above groups, the remaining European NGOs working in the country are more reluctant to issue public statements or articles on the sensitive political issues of aid distribution in North Korea. In theirs' mindset, the aid projects' impact is generally perceived as very positive. They regard the PDS as an efficient and reliable distribution mechanism and claims that assistance to North Korea is not only a matter of humanitarian impact but also of longer-term socio-political effects.¹⁴⁷ The major argument that they take is that through continued efforts, European NGOs contribute to a better relationship between North Korea and the international community and that is an important opportunity to open their minds. In addition, their works also can gradually create a situation in which the labeling of aid workers as 'imperialists and crafty plunderers' finds no support in North Korea.¹⁴⁸ Therefore, in this logic, their presence and works aimed at develop a new image of North Korea, whether relief, rehabilitation, or structural reform, are secondary.

During the past few years, the European NGOs provided unlimited humanitarian assistance toward the North Korean, including food relief, development aid and rehabilitation projects. It is generally believes that the non-governmental contacts between the EU and the DPRK created a cooperative atmosphere for the governmental relations, especially as there was rising numbers of European countries

¹⁴⁷ Ibid p.75.

¹⁴⁸ Ibid p.76.

started to develop their formal diplomatic relations with North Korea in recent years. Therefore, no matter the European NGOs in North Korea was proved to be a successful case or not, it's indeed true that the engagement of the European NGOs did addressed some of the immediate humanitarian crises in North Korea and provided a necessary platform for further socio-political cooperation in the future.

5. Conclusion

The bilateral relationship between the European Union and North Korea has always been underestimated as most of the attentions are paid on the strategic relations either the U.S.-North Korea or the inter-Korean relations. But, in this chapter, we can conclude that the EU-DPRK relations are well developed and institutionalized since the end of Cold War, especially when the Pyongyang government requested the international assistance on addressing its humanitarian crisis.

Right after the normalization between EU and DPRK in 2001, this contributed to both sides to widen their agenda of bilateral cooperation, including mutual trade, technological transfer and even nuclear issue negotiation. Moreover, this peaceful and friendly atmosphere was also extended not only on governmental relations, but also to non-governmental level as well. The European NGOs provided numerous humanitarian aids projects, including the emergency food relief, rehabilitation and development projects. Therefore, comparing to other countries, such as U.S., Japan and South Korea, European countries maintained successful a positive relations with North Korea and mutual is going to build up gradually in recent years. So, in the next chapter, we will go to discuss this non-governmental contacts being further extended into the field of economic knowledge transfer. That is the ideas of one community in

Europe being transnationally transfer to North Korea and eventually shaped the policy outcome.

Chapter Four

Pushing the envelope: New forms of political advocacy generated by NGOs: Analysis on the two EU-DPRK Workshops organized by the *Friedrich Naumann Foundation*

Throughout the last chapter, we specifically studied the bilateral relations between the European Union (EU) and the North Korea, including the governmental and non-governmental levels. Via this two-level relationship, EU, especially the non-government organizations (NGOs), provided a huge amount of economic and technical assistance to the Pyongyang government since recent years. This type of semi to unofficial economic cooperation provided a concrete and well-developed foundation for their future development.

This chapter provides a deeper analysis explore the non-governmental interactions, with specifically looking into one of the most influential NGOs in this relation, the Friedrich Naumann Stiftung (FNF) Foundation, a German-based European Foundation and its policy influence on the North Korean government. FNF is a transnational non-governmental organization established in 1958 by the first German Federal President, Theodor Heuss. It is the Foundation for liberal politics from Germany. This foundation has been organizing numerous training workshops and study tours for the inter-cultural and economic exchanges between the scholars and officials from the EU and the officials in North Korea. Among of all the workshops that they have organized, the three EU-DPRK workshops on economic reform and development from 2004 to 2007 was meant to be one of the most successful contribution to the economic development path for the North Korean government.

Through the ideas and policy that the economics experts and scholars suggested and recommended during the workshops, it provided a new path and angle of development for the Pyongyang government and showed the channels and format that this transnational expert group used was strategically successful in providing a new set of ideas for the North Korean government for its economic development.

1. FNF and the expert group generated by it

In the introduction chapter, a detailed review was made on the theory of epistemic community and discussed its effectiveness on policy influences. Expert group has played a significant role in recent years as the academic-policymakers relations are getting closer. According to Peter Haas, he described epistemic community is a community which members are professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue area. They have a share of technical knowledge related to a particular field as well as normative principles, causal beliefs, and a shared conception of interests.¹⁴⁹

In addition, their ideas can be realized as policy outcome while several networks can be built, including organizing some consultations with policy makers, convey their opinions is through conferences and public policy debates and making use of media as a discussion medium to voice out their opinions to the government officials.

The Friedrich Naumann Foundation established in 1958 by the first German

¹⁴⁹ Haas, Peter M. 1997. *Knowledge, Power, and International Policy Coordination*. Columbia, S.C.: University of South Carolina Press. p. 3

Federal President, Theodor Heuss, is the Foundation for liberal politics from Germany. Its programs at home and abroad aim at promoting the principle of freedom of the individual in human dignity.¹⁵⁰ The Foundation sees itself as an agent of organized liberalism. It enjoys close links with Germany's Free Democratic Party (FDP) and Liberal International (LI). The Foundation follows the ideals of its namesake Friedrich Naumann: At the beginning of the last century the Protestant theologian was a leading liberal thinker and politician in Germany. He resolutely backed the idea of civic education. Naumann believed that a functioning democracy needs politically informed and educated citizens. According to him civic education is a prerequisite for political participation and thus for democracy.

The Foundation has built various foreign offices in Africa, America and Asia. Enhancing political dialogue and providing political counseling are the Foundation's main activity both at home and abroad. Therefore, the chief activities which they are organizing are some relevant seminars, conferences and publications aimed at promoting international political dialogue and provides a discussion forum for a wide range of liberal issues.

In close cooperation with the Center for Local Autonomy and the Graduate School for Local Autonomy at Hanyang University in Seoul, the Friedrich Naumann Foundation supports research, the exchange and training of academics, civil servants and politicians particularly between South Korea, North Korea and Germany. One of the major achievements was providing three economic knowledge transfer and exchange platforms through expert study tours and international conferences and

¹⁵⁰ Friedrich Naumann Foundation (FNF). 2008. *All About Us*. Access at 16th of June, 2008. Available at: < http://www.fnfkorea.org/new_eng/index_eng.asp>.

seminars between the European scholars (with the fully support by the European Union (UN)) and the North Korean officials. These dialogue programs involve policy makers, party officials, civil servants, researchers and the private sector from the North Korea and Europe in intense discussion and intellectual exchange on sharing the experience of the economic transformation issues of the past Eastern Europe countries and the practical solution to the current North Korea economic reform strategy

According to Peter Haas, he mentioned that expert group is a non-state actor (NSA) which is free of government political or economic influence. In regards to the list of the scholars whom the FNF invited, all the intellectuals are affiliated with Universities, which free of government influence. Secondly, Haas mentioned that expert group is a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue area. In looking at the background of the scholars, all of them not only formed with a connected-network, but also expertise in economics (especially transformation economics) and affiliated with well-known Universities in respective countries.

However, as Haas stated clearly that there are four different criterions which separate the epistemic community with the others groups. So, in the following part, we can try to apply the criterions which Haas analyzed and elaborate how the scholars' community invited by the FNF is an expert group.

1.1. Shared Normative and Principled Belief

In what Haas described, a shared normative and principled belief is which

provide a value-based rationale for the social action of community members. In this sense, Judith Goldstein and Robert Keohane provided the meaning of a principled belief is consists of normative ideas that specify criteria for distinguishing right from wrong and just from unjust.¹⁵¹ In this category, beliefs in collective sense are expected to be morally driven and aim to protect world interests.

By looking closely at the founding principles of the FNF, the programs, no matter at home and abroad, are aimed at promoting the principle of freedom of the individual in human dignity. Inside the principles, it can be divided into four parts and the under-lying values of the principles are laid on normative-driven mentality.

First, is the idea of liberal policies and the individual. Liberal policies, in theirs' definition, are to promote respect for the rights of the individual, for civil rights. The individual needs these rights so as to freely shape his/her own life. Therefore, freedom of opinion is not only a compelling moral command of tolerance and of the rule of law, it is also the path toward progress of the human spirit, a path which can be found only through the competition of free ideas and knowledge.

The definition also included the right to private property. Without respect for private property, many other rights cannot be realized. Liberal policies are in favor of equal opportunities from the start, in favor of competition and pluralism. They strive, therefore, for the free access of all to all markets, education, information, labor, goods, and capital markets. Liberal policies seek to free the individual from coercion by the state and by anonymous institutions so that he can fulfill his responsibility in freedom.

¹⁵¹ Goldstein, Judith and Robert Keohane. 1993. *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*. Ithaca: Cornell University Press, p.9

Freedom requires responsibility for the community.¹⁵²

Second, is the idea of liberal policies and civic society. Liberal policies strive to enlarge the freedom of citizens in all spheres of life and to restrict the role of the state to the essentials. This includes recognizing the capacity of citizens to organize themselves. Citizens can undertake many tasks in municipalities, wards, associations, lobbies, other private institutions and initiatives and wish to do so.

Third, the basic principle of this community views state as the protection of individual freedom and the protection of citizens against violence from within and abroad, as well as safeguarding of the constitution. Liberal policies want to ensure that rules apply to all, while leaving space for the free decision of the individual. Liberal policies do not want to predetermine a certain outcome; they want just rules instead of just results, because such results do not exist.

Therefore, in this sense, the spirit of the founding principles of FNF reveals the normative value of this community, as it promote and consolidate the civil rights of the peoples.

Moreover, according to the report of the Workshop, Mr. Ulrich Niemann, the ex resident representative of FNF stated that “it is truth of life that people can only become real friends when they start to know and to understand each other....openness, trust and mutual information as well as sometimes also compromises are central preconditions for mutual good understanding and relations.”¹⁵³ It highlighted the basic

¹⁵² Friedrich Naumann Foundation (FNF). 2008. *Principles*. Access at 16th of June, 2008. Available at: < http://www.fnfkorea.org/new_eng/index_eng.asp>.

¹⁵³ Friedrich Naumann Foundation (FNF). 2006. *Report on the Workshop on 'Economic Reform and*

attitude of the FNF on this historical meeting with the North Korean counterparts is that they wish sincerely to provide an alternative and practical solution in order to revise and provide another ways of economic transformation.

In addition, about the human resource arrangement, most of the scholars invited by the FNF are primarily either from some former socialist countries in the Eastern Europe or expertise academically in this field of subject, e.g. Dr. Dusan Triska, who is the Chairman of FSP/CD-F (Contractual Digital Floor) and former Deputy Minister of Finance in Czech Republic. He published various articles related to economic transformation, especially on the Eastern European countries. For example, he published a book on behalf of World Bank in 1995 titled on '*The Role of Investment Funds in Privatization*' which analyzed how to improve the investment environment during the privatization period. Other than that, he was the principal architect of the Czech voucher approach to privatization, which indeed supported the gradual transformation from the planned economy to the market economy. So, from his background, he devoted and spent his whole life in providing academic knowledge to the government on the process of privatization.

1.2. Shared Causal Belief

Another set of criteria which Haas described about the expert group is that it must have a shared causal belief. In their definition of expert group, cognitive regime theorists speak of 'casual belief' and knowledge about 'cause-and-effect relationships' which are offered to policy makers in situations of uncertainty. A cause is that which brings about an effect, and action, phenomenon, or condition. In this sense cause and

effect are correlative terms.¹⁵⁴

A shared causal belief is which are derived from their analysis of practices leading or contributing to a central set of problems in their domain and which then serve as the basic for elucidating the multiple linkages between possible policy actions and desired outcomes. In a much more concrete sense, causal beliefs, is beliefs about cause-effect relationships which derive authority from the shared consensus of recognized elites, whether they are village elders or scientists at elite institutions.¹⁵⁵ This kind of causal belief provided a guide for individual on how to achieve their objectives. Concurrently, they also inherited some scientific causal relationships which provided a knowledge authority on peoples' beliefs. For example, the reason why there was a great change in state's policy on production of CFCs which primarily due to the new scientific evidence about the hole in atmospheric ozone layer as it would contribute to cancer and climate change. Thus, this scientific finding portrait as an authoritarian idea which showed a causal relationship between human behavior and climate change so that it demanded a change of state's policy.

In this sense, the scholars' community from the FNF was providing a causal belief on how to reform the North Korean economy in a transitional economic perspective. As there are numerous possible pathways for a single country to transform its economy from a centrally-planned one into a market-driven economy, no matters on the pace, steps or priority, country like North Korea hesitated which paths would be the best option for the economic development in North Korea. In the

¹⁵⁴ Teichler, Thomas A. 2007. Think Tanks as an Expert group: The Case of European Armaments Cooperation. *Paper presented at the ISA 48th Annual Convention, Chicago (28th February – 3rd March)*. p. 18

¹⁵⁵ Goldstein, Judith and Robert Keohane. 1993. *Ideas and Foreign Policy: Beliefs, Institutions and Political Change*. Ithaca: Cornell University Press, p.10

theoretical study of transition policy, some countries like the Soviet Union and the Eastern European countries preferred the policy called 'shock therapy' approach as the ruling government decided a revolutionary and rapid change of domestic economy by removing all the government control and subsidy on economy and followed by political reform also. Another set of countries, such as China and Vietnam, preferred a rationale called 'gradualism' which means the change of the economic structure in gradual steps and no political reform will be resulted. As a result, under this policy uncertainty and without any objective and authoritative advice, the group of economic scholars from the FNF, provided a set of potential economic transformation strategy and pathway toward the North Korean officials and also helped to predict the possible outcomes in respective reform, e.g. Dr. Dusan Triska digested the different forms of restructuring the economy in various transitional economies and suggested that the 'Czech Way' would be one of the possible applicable model for North Korea's economic reform.

Another causal argument that the expert group holds in this workshops is that their view on openness and economic development. In these workshops, scholars from different background and countries shared the same view on the more open the economy the better economic performance during transition. As a group, scholars who experienced or researched on this field made a conclusion and tried to persuade the North Korean officials that foreign capitals, experiences and investments can stimulate the stagnant domestic economy. For example, Professor Ari Kokko said an outward -looking economy attract more foreign capital and higher technical development and transportation system will be resulted. Concurrently, Professor Rudiger Frank praised the importance of FDI as it can assist the developing countries with creating of new jobs and help to develop and restructure of enterprises. Therefore,

scholars in this community shared the same causal belief that openness is the cornerstone for economic development in North Korea.

1.3. Shared Notions of Validity

In addition, a shared notion of validity is also one of the essential criteria of forming an expert group. Haas stated that a shared notion of validity is intersubjective and internally defined criteria for weighing and validating knowledge in the domain of their expertise. Generally speaking, it is meant to be referring to those intellectuals' consensus that the adopted solution is a valid solution for the problem at hand.

First, all community members have an academic training and most of them received their doctoral degree on economics or Korean studies. For example, Professor Ruediger Frank holds a Master's degree in Korean Studies, Economics and International Relations and a PhD in economic and also has spent one semester as a language student at Kim Il-sung University in Pyongyang in 1991-1992 with support from the German Academic Exchange Service. Concurrently, Professor Bruno Dallago obtained his PhD in Economics at the Hungarian Academy of Sciences and currently working on some research projects on local development for the Balkans states. Therefore, judging by the content as well as the level of background education of the community members, it can be assumed that they share the criteria for valid knowledge that are accepted in the economic studies.

Another indicator that might strengthen the case for shared validity criteria is that all the community members shared the same validity belief that through engaging the North Korea, the North Korea will be more willing to extend their cooperation and

further accept the ideas which they delivered. During the conferences, one of the most important consensuses among those intellectuals is that there is a need for North Korea to adopt a new set of coherent development strategy and they truly believed that the experience and knowledge from their history would be fruitful and should be able to provide an alternative solution towards the current stagnant economy in the North. This view was further justified while in the opening speech by Mr. Ulrich Niemann, the resident representative of FNF, said in the first EU-DPRK Workshop, he mentioned that all the participants in this workshop shared the same goal that the ideas they brought will be highly relevant for the economic reform in North Korea and they shared a great interest on organizing more training seminars, workshops and dialogue in the future.¹⁵⁶ Not long after, the North Korean officials decided to extend the diplomatic cooperation with the North Korea by actively requested for the FNF to hold more specific workshops and seminars on banking, finance and accounting either abroad or in Pyongyang. Therefore, inside the community, all participants shared the same validity belief that the EU-DPRK relations should be built gradually and steps-by-steps, and the policy uncertainty situation in North Korea in recent years can only be solved with the assistance from the other forces, such as the relevant knowledge and model copying from the former socialist countries in the Eastern Europe.

1.4. A Common Policy Enterprise

Finally, Haas presented an expert group should exist a common policy enterprise, that is, a set of common practices associated with a set of problems to which their

¹⁵⁶ Friedrich Naumann Foundation (FNF). 2006. *Report on the Workshop on 'Economic Reform and the Development of Economic Relations between the EU and the DPRK'*, p.5

professional competence is directed, presumably out of the conviction that human welfare will be enhanced as a competence.

One of the common goals which the expert group of the FNF is that through working closely between the EU and the DPRK, these cooperation activities with the DPRK would finally transform the economy in the North into a more market-driven economy so that more benefit will be brought to the common people in the North so as to increase the living quality of North Korean.

The scholars of this expert group here share another common political objective which based upon the fundamental value of FNF: They support and contribute to stability and peace on the Korean peninsula and diplomatic is the only mean to resolve the crises happened in North Korea. For this purpose, they actively support the FNF to organize international seminars, workshops and conferences for North Korea. Also, the DPRK's gradual opening to the international community, which has diplomatic relations with Germany since 2002, and the North Korean government's July 2002 economic adjustments have created a new environment in which the FNF was able to co-organize its first training seminar on market economy in Pyongyang in 2004. With regard to the overwhelming success of its first activity in the DPRK the scholars from the FNF was continuing to provide and co-organize training measures also in 2005 and resulted in holding the Second Workshop on Economic Reform and the Development of Economic Relations between the EU and the DPRK in October 2005. So, in this aspect, all the scholars supported a peaceful development in the Korean peninsula should be the most important pre-condition for the economic reform in North Korea.

In addition, as refer to the hidden political objective of FNF, the FNF also would like to promote the East-West Germany experience to North-South Korea in order to assist them to finally achieve a similar political outcome. As a German-based NGO, the FNF supports research, the exchange and training of academics, civil servants and politicians particularly between South Korea and Germany as well as knowledge transfer and exchange through expert study tours and international conferences and seminars. Moreover, the political dialogue program involves policy makers, party officials, civil servants, researchers and the private sector in intense discussion and intellectual exchange on various issues of high political relevance between South Korea and Germany. Beneath those interaction and dynamics between two countries, the Foundation aims politically at dialogue and cooperation between the two Koreas by bringing in the very unique German experience of national reunification and European integration. Also, in regards to the topic of the workshop, cases of East-West Germany were deliberately designed and mentioned for North Korea, such as the topic of '*Experiences with the Treuhand agency in Germany*' by Dr. Brigitta Kauers, he discussed the essential role played by the Treuhand agency in shaping the privatization policy of the former East German companies after the re-unification. It helped to endorse the labor promotion law to protect the employment opportunity of the East German and massively raised the competitiveness of the previous state-owned enterprises in the East Germany so as to narrow the structural different between the East and West Germany. Therefore, in order to promote the positive lessons drew from the re-unification of East-West Germany, the FNF controlled the political and discussion agenda so as to assist and contribute to a peaceful re-unification in Korean peninsula.

2. Experts groups in FNF matters: How did the ideas developed,

transferred and influenced the policymakers in North Korea

Through the analysis of the previous part, the experts groups from the FNF can generally be considered as a scholar network which provides economic knowledge towards the officials in Pyongyang when they conducting their national economic restructuring policy.

Therefore, after confirmation of the status of the expert group, then, questions would be raised on how did the ideas from this community being developed and transferred to the policy-makers in Pyongyang. In addition, throughout the various channels, how the ideas rooted from this community eventually did influence the policymakers and to what extend or how successful of the ideas affected the policy outcomes in North Korea.

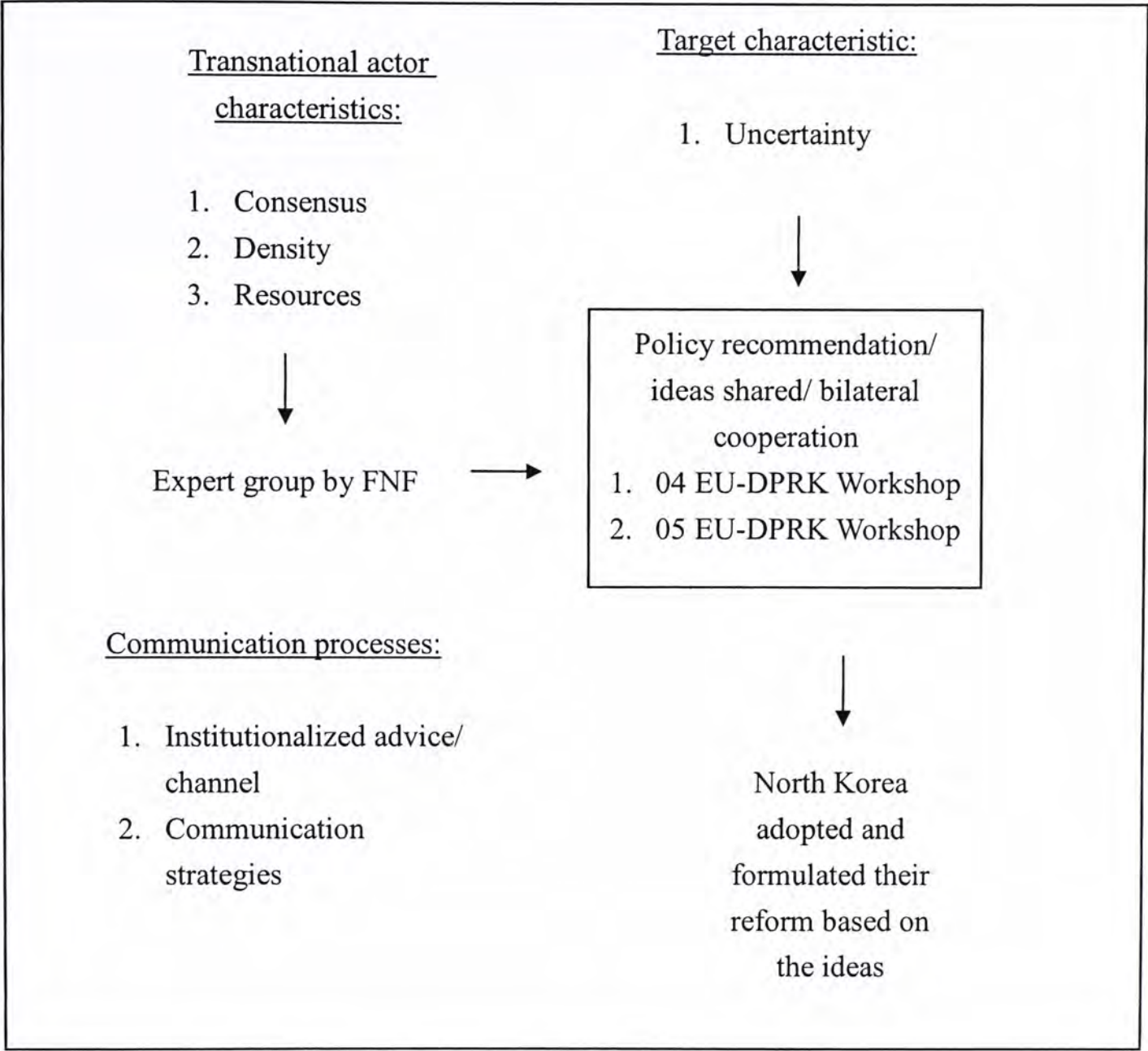
So, followed by the diagram below, we can step-by-step to tackle the various questions. First, in terms of the expert group, there are various aspects to be discussed and analyzed, such as the academic and professional background of the participants, the consensus of ideas and beliefs inside the community, the consolidation and density of the community and what kind of resource and social capital do they keep and hold in order to sustain the momentum of the community.

Second, from the target's perspective, it's important to discuss the reason why the target requests such kind of transnational knowledge transfer. According to Peter Haas, policy uncertainty plays a significant and decisive role for officials to make a request for scientists to provide an objective and authoritative advice on the current situation, so as to shape the policy outcome. So, in this case, the officials from North Korea

faced a challenging economic situation and at the same time they failed to provide a not only immediate but also possible policy advice in this circumstance. Therefore, the Pyongyang authority at last makes a policy request to the European counterparts through EU-DPRK diplomatic network. Eventually, one of the European NGOs called Friedrich Naumann Foundation (FNF) invited several economic scholars from the former socialist countries in the Eastern Europe and organized two EU-DPRK workshops so as to provide economic advice on the North Korea current situation.

Third, in terms of the workshops itself, the expert group presented various ideas and policy suggestions in front of the North Korean officials, including the importance of foreign capitals and investment for transition and minimizing the role of state in the economic sphere during the privatization process. Furthermore, those ideas presented during the workshops were transferred and communicated through various institutionalized strategies, such as networking building, previous training tours and different communication channels during the workshops (conference, discussion groups and field visit).

Table 4.1: Research Framework



2.1. Transnational actor characteristics

2.1.1. Participants of the expert group

Inside the expert group, the background, portfolio, academic affiliation of the community members plays an important role in shaping what kind of knowledge and ideas they presented and delivered in the workshops. Moreover, it also demonstrates the authoritative and persuasive power of their academic contribution so that officials

are more willing to select their ideas to formulate the policy outcome.

Within the community members in these workshops, various members from different background, academic positioning and area of publications were invited to form this expert group. In this perspective, the Foundation not only invited academic scholars, but also diplomats and transnational corporations' managers. Therefore, the dynamics and the scope of practical knowledge was further diversified and broadened in this community and hopefully it increased the possibility to influence the final policy output.

2.1.1.1. Workshop in 2004

Within this expert group, the FNF invited totally five academic professors, one professional lawyer, one United Nations officials, two NGOs representatives and two officials from the European Union to come and provide their academic knowledge and professional experience on how to transform a economy from government-planned to market-oriented.

According to their resumes listed in the appendix one, inside this group of experts, in terms of nationality, they all commonly come from various European countries, such as Czech Republic, Denmark, Sweden, Italy and the United Kingdom. Moreover, in their research or professional experience, they are all majorly shared on the field of economic development and transformation, for example, Professor Ruediger Frank researched tremendously on the transformation of socialist systems in Europe and East Asia, and Professor Ari Kokko written numerous books about how foreign direct investment positively affected the recipient countries on their economic

transformation and development.

However, in terms of professional background, they can be categorized into three different perspectives. Firstly, five of them belong to academic, such as the Stockholm School of Economics, Nordic Institute for Asian Studies and University of Economics in Prague etc. Secondly, two of them are serving two different NGOs in the last few years, such as the Friedrich Naumann Foundation and Europe-Korea Foundation. Thirdly, the FNF also invited three officials from the United Nations Development Programmes, Dutch EU Presidency and European Commission. Thus, from the perspective of their backgrounds, it reveals that there is a wide range of different kinds of people who involved in this expert group.

2.1.1.2. Workshop in 2005

As the first EU-DPRK Workshop organized by the FNF in 2004 successfully built and provided a positive image and experience for the EU-DPRK bilateral relations, therefore, the FNF decided to set up another EU-DPRK Workshop in 2005 so as to extend the room of cooperation and further institutionalized this kind of bilateral network. In the workshop in 2005, the FNF continued to invite six academic scholars, one NGOs member and one government official in Germany to come to Pyongyang and shared their knowledge and experience with the North Korean officials.

According to their resume listed in the appendix one, inside this group of experts, in terms of nationality, they all also commonly come from various European countries, such as Czech Republic, Hungary, Sweden, Italy and Ireland. One of the most

important findings in their resumes is that two of them are re-called and re-invited by the FNF in this year's workshop that are Professor Ari Kokko and Dusan Triska. Moreover, in their research or professional experience, they are all specially shared on the field of economic development and transformation, for example, Professor Andrea Szalavetz have done several research projects on economic reform, restructuring and privatizations and Professor Bruno Dallago written numerous books about economic liberalization in the Eastern Europe.

Like the previous expert group, the group of experts in 2005 also came from different personal background, such as various institutes (National University of Ireland and Warsaw School of Economics), NGO (ECORYS group) and government branch (Federal Ministry of Finance in Germany).

2.1.2. Consensus among community members

In fact, the actor-related factor that has worked in favor of the expert group is the existence of consensus. Inside the community, members were having consensus in believing the importance of diplomatic engagement will help the North Korean counterparts in blending and participating into the international community. Therefore, experts who are invited to participate in this community are all agreed on actively encouraging the peaceful means in assisting the reform programs in North Korea and placed this value as the core common denominator for their particular interest. For example, the opening speech in the EU-DPRK conference in 2004 by Mr. Ulrich Niemann, the Programme Director for Korea of the Friedrich Naumann Foundation, he emphasized that all participants agreed that continue the dialogue and engagement (organize more training seminars, workshops and dialogue forum) would be essential

in assisting the North Korean officials in returning to the international community.¹⁵⁷

In addition, among those European economists who have worked in transition economies and invited by the FNF, they also achieved in a consensus that through transferring and sharing the knowledge, ideas and experiences of the transformation processes in Eastern and Central Europe before, can help and assist the North Korean officials in conducting, directing and providing another alternative for their economic reform policy. Thus, the expert group constructed a shared ethical obligation by sharing their technical and academic knowledge on transition economies and theirs' personal experiences on assisting the economic reform programs in respective countries during the last ten years after the collapse of the Soviet Union to those North Korean officials who were facing a similar deadlock and obstacles in transforming their national economy from a centrally-planned economy into a less government-driven economy.

Moreover, another common view within the community was their unanimous view of creating momentum for future bilateral cooperation between the European Union and North Korean government. In the community, all the members are come from Europe and some of them countries' foreign affairs representatives or are sponsored by the European Commission. Therefore, one of the core common value among them are try to build trust and mutual understanding with each others. For example, during the opening session in the EU-DPRK Workshop in 2004, Mr. Ulrich Niemann mentioned that "it is a truth of life that people can only become real friends when they start to know and to understand each other...and all of our members are

¹⁵⁷ Friedrich Naumann Foundation (FNF). 2005. *Report on the Workshop on 'Economic Reform and the Development of Economic Relations between the EU and the DPRK'*, p.5

expected that this workshop should be seen as an valuable occasion in building trust, mutual information and an exchange of ideas and sharing of experiences.”¹⁵⁸ Therefore, members in this expert group would mobilize their diplomatic and technical capability in order to help to build a better relation between EU and DPRK in the near future.

2.1.3. Density among members

The other actor related factor is density, which means the frequency and period of meeting and discussion between different members in this community. However, it appears to have little explanatory power. The density of the interactions between the members of the network is relatively low, which is not unusual for transnational network.¹⁵⁹

We find two types of interactions in this network. First, the most comprehensive, centralize and influential interactions are to be found on the two big EU-DPRK Workshops, which in each of the workshops there were more than 20-30 European participants are invited and around 6 to 7 of them are European economic experts and therefore formed their expert group. These members, although only 3-4 of them are invited in both workshops, would meet in the conference and discussed and exchanged their ideas, perspectives and information on the transitional strategies with the North Korean officials. During the two-day workshop, their interactions are basically through several formal and informal means of communication. Formally, such as presentation, follow-up discussion session and working group, and informally,

¹⁵⁸ Ibid, p. 10

¹⁵⁹ Karlsson, Michael. 2004. Expert groups and Cooperative Security: The Case of Communicable Disease Control in the Baltic Sea Region. *Journal of International and Area Studies* 11, 1: 92.

such as tea break talking and field study.

Second, the smaller network is upheld separately by irregular interactions on a less frequent basis and consists of different combination of members. For example, in the first EU-DPRK Workshop in 2004, Dr. Geir Helgesen, Ari Kokko and Frank Rudiger were served as the senior researchers in the Nordic Institute of Asian Studies (NIAS) in 2001 and 2005 respectively. Actually, NIAS is one of the leading institutes in the Nordic countries and it's well-known of organizing numerous Nordic-North Korea research projects and academic workshops, such as the International Workshop on Social Welfare and Economic Development: North Korean-Nordic Dialogue held in 1–3 November 2005, at the Nordic Centre, Fudan University, and in Shanghai. During these years, they both conducted and published several research articles which are related to the field of economic transition, such as the '*North Korea's Economic, Political and Social Situation*' authored by Dr. Geir Helgesen.

Moreover, in the workshop in 2005, Dr. Andrea Szalavetz and Bruno Dallago were also co-working in the same research institute, Transformation, Integration and Globalization Economic Research (TIGER). TIGER is the leading independent economic think-tank in East Central Europe. It is affiliated with the Leon Kozminski Academy of Entrepreneurship and Management (WSPiZ), a well-known business school in East Central Europe, located in Warsaw, Poland. They worked and co-authored a book called "*Small Economies' Adjustment to Global Tendencies*", which is about different countries' experiences on transforming theirs' economies.¹⁶⁰

2.1.4. Resources of FNF

¹⁶⁰ Bara, Z. and Csaba L. 2000. *Small Economies' Adjustment to Global Tendencies*. Aula: Budapest.

As regards resources, the expert group in these workshops is mainly relied on the Friedrich Naumann Stiftung Foundation (FNF), a German based and governmental financially supported political foundation. In terms of sources of funding, the FNF is undoubtedly a government financed foundation, which they received \$46.1 Million from the Development Ministry and \$4.9 Million from the Foreign Ministry in 1989. However, it can be regarded as a non-governmental foundation due to the fact that they can plan and implement their projects in a de facto autonomous way¹⁶¹; especially most of their budget goes into programme abroad without any political censorship.

Table 4.2 Foreign expenditures of the German party foundations (million DM)

	Source of funds		
	Development ministry (1989)	Foreign ministry (1989)	Total
Konrad Adenauer Foundation (Christian Democrat)	93.1	9.9	103.0
Friedrich Ebert Foundation (Social Democrat)	94.3	9.9	104.2
Friedrich Naumann Foundation (Free Democrat)	46.1	4.9	51.0
Hanns Scidel Foundation (Christian Social Union)	47.9	4.9	52.8

¹⁶¹ Brucker, Matthias. 2007. Transnational Actors in Democratizing States: The Case of Germany Political Foundations in Ukraine. *Journal of Communist Studies and Transition Politics* 23, 2: 303.

TOTAL	281.4	29.6	311.0
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Excludes funds from private contributions and grants from state governments. Development ministry grants include 0.67 million DM to the Rainbow Foundation. Foreign ministry grants include scholarships for overseas students selected by the foundations, totaling 17.0 million DM and 12.7 million Dm for ‘international activities’. Excludes grants for foundation activities relating to political education and research within Germany.

(Source: Pinto-Duschinsky 1991: 36)¹⁶²

Since 1987 the Friedrich Naumann Foundation, in cooperation with the Center for Local Autonomy at the Hanyang University in Seoul, has been supporting political decentralization, empowerment of local governments and promotion of citizens’ participation in the local politics of the Republic of Korea. In supporting the operation of this transnational expert group, the Foundation received funds from European Union (EU) in supporting their activities in North Korea, including the training seminars and the two tailor-made big workshops for experts on the economy and finance in the North Korea.

In terms of communication and organization resources, the working office in Seoul with quite a number of staffs who are working on this community, especially Mr. Ulrich Niemann (the Resident Representative) and Ms. Sabine Burghart (Project Officer). On one hand, they coordinated the members in the community and provided a medium of network for them to communicate with each other. Simultaneously, they kept and engaged a close and cooperative relationship with the North Korean government and guaranteed the momentum of the scholars-officials cooperation in

¹⁶² Duschinsky, Pinto. 1991. Foreign Political Aid: The German Political Foundations and Their US Counterparts. *International Affairs* 67, 1: 36

every year.

Therefore, in this part, it can be concluded that the FNF as a liberal-based NGOs invited various scholars from Europe who are having similar academic and professional background in providing topics which are related to economic reforms and transitions from their countries' experiences. Inside this expert group, members are having a high degree of moral consensus on helping the North Korean officials, as they're facing a serious policy uncertainty on whether how to revive its national economy under a decade of economic recession. However, the density of the interactions between the members of the network is relatively low as they only met once or twice within a year, which is unusual for transnational policy network. But, the problem of the lack of density can be supplemented by a large sum of budget of FNF as they were actively engaged in various aspects of academic activities in North Korea, which still can sustain the network with North Korea in this sense.

2.2. The specific need of policy suggestion from North Korea

Uncertainty plays an essential role in assessing the effectiveness and power-to-influence from the expert group to the policy-makers in the government. In this perspective, Pyongyang officials faced a high degree on policy uncertainty of whether taking which path to reform its economy and how far should they open their economy to the outside. Therefore, under these policy constraints and without any possible policy advices, request is made and the FNF invited several economists who are expertise in this field academically or worked in the government during the transition period respectively.

2.2.1. The existence of uncertainty

It is believed that expert groups can exert considerable influence if there is a high degree of uncertainty among policy-makers.¹⁶³ Uncertainty, in this sense, means to provide a window of opportunity for knowledge-based expert groups to exert influence.¹⁶⁴ Because of this, the function of experts is sometimes described as that of uncertainty reducers. The feeling of uncertainty appears to be particularly marked within issue areas that are characterized by much complexity.¹⁶⁵ However, because of institutional inertia, policy-makers may not at once be susceptible to the technical advice. On the contrary, it has been noted that this resistance is easily overcome in times of crisis when great values are at stake.¹⁶⁶

Moving on to the target, in this case the Foundations and those European economic experts, they assumed that uncertainty among the policy-makers in the Pyongyang government could open a window for transnational influence. This seems to apply to the case of communicable economic transitional knowledge and experience.

In the previous chapter, we discussed about the general trend of economic development in North Korea. As we knew, there was a great famine that took place in North Korea because of the bad harvest and consistent drought, and contributed to the widespread of economic hardship and economic collapse in the mid 1990s. Since then,

¹⁶³ Haas, Peter. 1992. Introduction: Expert groups and International Policy Coordination. *International Organization* 46: 3-4

¹⁶⁴ Risse, Thomas. 2002. Transnational Actors and World Politics. In W. Carlsnaes, T. Risse and B.A. Simmons, eds., *Handbook of International Relations*. London: Sage, p. 268.

¹⁶⁵ Haas, Peter. 1992. Introduction: Expert groups and International Policy Coordination. *International Organization* 46: 3-4

¹⁶⁶ Ibid

the Pyongyang government was decided to foster its economic recovery and development by designing a careful and gradual opening of the national economy through economic cooperation with the outside world.

With the introduction of the 2002 economic measures, the move of the North Korean government from a state-led distribution system to a more market oriented approach became evident. However, a reform within the system leading above all to short-term effects will not be sufficient to improve the economy. Therefore, a reform of the economic system seems necessary. And here, Pyongyang is facing a dual dilemma: fundamental economic reforms are needed for the development of the economy, but they may threaten the political status quo.¹⁶⁷ Moreover, the North Korean government has carefully studied and applied the process of transformation in China, but the instant and immediate feedback was not that optimistic, especially as the introduction of a new dual pricing system led to a hyperinflation in 2005. Therefore, facing a policy uncertainty, the officials in North Korea were indecisive where will be the optimum exit for their policy direction.

Under this circumstance, the North Korea government considered there is a need to broaden and widen the scope of economic transformation experience and knowledge, not only from China and Vietnam, but also to the former communist East European countries as well. In March 4th to 16th, 2002, a North Korean delegation headed by Foreign Trade Minister Ri Gwan Gun visited Brussels, Rome, Stockholm and London and declared that the goal of the North Korean government was to get acquainted with EU economic policy models.¹⁶⁸ It is attributable to this and similar

¹⁶⁷ Niemann, Ulrich. 2005. Sunshine in the Darkness? Where will North Korea's economic reforms lead? *Asia Europe Journal* 3, 3: 310

¹⁶⁸ Frank, Rudiger. 2002. EU-North Korean Relations: No Effort Without Reason. *International*

diplomatic missions, North Korea government officials consistently define its needs and preferred the European counterparts to provide several training seminars, workshops and study tours in order to assist the economic knowledge building and model copying for the officials.

Moreover, from the table 4.3, it is noted that the Pyongyang authorities made several policy requests for EU and ask for EU to provide and organize various training camps or workshops for North Korean officials respectively. Government bodies such as the Ministry of Foreign Affairs, Finance and Foreign Trade made a request for more training workshops on subjects like 'FDI promotion' and 'intellectual property protection' as they understand that the EU, especially those ex-socialist countries during the transition period, gradually building a well-protected and generally respected legal system and FDI also highly invited in order to solve the lack of domestic investment problem in their countries. Therefore, the DPRK officials in return asked consistently for the EU officials to organize more training workshops in respective fields of studies.

Therefore, the Friderich Naumann Foundation and several European economic scholars who worked for the field of the economic transition policy and shared experiences of the former communist East European countries initiated and responded to the needs of the North Korean officials and organized the two big EU-DPRK Workshops in 2004 and 2005. Thus, in this case, uncertainty among policy-makers very much functions as a window of opportunity for experts to influence and for economic knowledge to flow.

Table 4.3: Training Needs as Expressed by DPRK Authorities (selection)

Suggesting Institutions	Summary of Suggested Training Subjects	
<ul style="list-style-type: none"> ♦ Ministry of Foreign Affairs ♦ Ministry of Finance ♦ Ministry of Foreign Trade ♦ Foreign Trade Bank ♦ University of National Economy ♦ Kim Il Sung University, Faculty of Political Economy 	<ul style="list-style-type: none"> ♦ principles of international trade ♦ settlement of trade disputes ♦ multi- and bilateral treaties ♦ economic and social structures of EU economies ♦ international financial institutions ♦ international accounting standards ♦ corporate management training ♦ trade information research ♦ loans, credits and clearing systems ♦ sovereign credit rating ♦ sovereign risk management ♦ insurance and re-insurance ♦ relationship between government and private sector 	<ul style="list-style-type: none"> ♦ international law ♦ EU institutions ♦ FDI promotion ♦ marketing ♦ commercial contacts ♦ intellectual property ♦ standards ♦ finance ♦ export credit insurance ♦ letters of credit ♦ fx dealing ♦ e-commerce ♦ principles of taxation ♦ corporate governance ♦ stock market operations ♦ double entry bookkeeping

(Source: Frank Rudiger 2002: 99)¹⁶⁹

¹⁶⁹ Frank, Rudiger. 2002. EU-North Korean Relations: No Effort Without Reason. *International Journal of Korean Unification Studies* 11, 2: 99.

2.3. Communication Process

In the previous part, we have discussed and analyzed about the background of the members of the community, components, density, consensus of ideas and resources of the community. It's believes that in terms of the capability, the expert group itself possessed a well-structured organization and a high degree of potential on influencing the North Korean officials in the economic reform spectrum. Then, in the following part, we're going to review on how they built the communication channels in the last few years and by what means they can communicate with the North Korean officials during the workshops. In the last part, assessment will be made upon how did it institutionalized and evaluate the effectiveness of the strategies.

2.3.1. Networking Building

2.3.1.1. Seminar

Table 4.4: Seminars organized by the FNF in recent years

Date	Topic
April 6, 2007	Roundtable on Renewable Energies in Germany
April 1-4, 2007	Seminar on the Economics of International Trade and Investment
April 4, 2007	Improving the Monetary and Banking System in the DPR Korea
May 23-26, 2005	Seminar on Public Finance

May 4-5, 2005	International Forum on Foreign Trade
October 25-28, 2004	Seminar on International Finance
March 29-1 April, 2004	Role of the System of National Accounts and Commercial Account in a Market Economy

Since spring 2004, the Friedrich Naumann Foundation (FNF) organized series of training seminars for the North Korea's official, specifically for those who are working in the trade, business and financing departments. All of the seminars are co-organized by the Ministry of Foreign Affairs of the DPRK. Here is the table of the previous seminars which organized by the FNF since 2004: (See Table 4.4)

In the most recent one in 2007, the FNF had invited two economic experts from Germany, Mr. Georg Koopmann from the University of Hamburg and Dr. Lutz Werner who currently serves as Head of Division at the Department for External Economic Policies of the Federal Ministry of Economics and Technology to Pyongyang. The seminar was focused primarily on building trust between foundation and the North Korean counterparts and also to provide new knowledge on trade and investment to North Korea in order to help them to further opening up its economy to the outside world. In the congratulatory address, the German Ambassador, H.E. Friedrich Loehr, cited the New Year Editorial of the Rodong Shinmun, the Workers Party's newspaper, where the authors emphasize that 'the economy is our fate'. Ambassador Loehr expressed his support for the Foundation's training seminars and pointed out that these are not only capacity building but also trust building measures. He expressed his hope that the DPR Korea would become an important stakeholder in the international community and economy.

During the past few seminars, the foundation was primarily dealt with issues which are related to different steps and components of economic liberalization, such as the introduction of a reliable currency and banking system, the importance of international trade for economic development in the globalized world and how to attract foreign investment.

2.3.1.2. Study Tour/ Training seminar

Table 4.5: Study Tour organized by the FNF in recent years

Date	Destination	No. of experts	Places to visit	Topic/s
9/2005 (12 days)	Germany	Ten economic and financial experts	The Bundestag (German Lower House), the Ministry of Foreign Affairs, the Federal Ministry of Economics and Labour, the Federal Ministry of Finance, German Institute for Economic Research (DIW), the German Federal Central Bank and the European Central Bank.	● Budgeting, expenditure, monetary and fiscal policy
1/2006	Germany	Four representatives	The German Institute	● Economic transformation

(8 days)		of the Ministry of Foreign Affairs, the Ministry of Education and the Ministry of Finance	for Economic Research in Berlin, the Hamburg Institute of International Economics, the German-Asia Business Association and the Institute of Asian Affairs.	and education ● The delegation showed particular interest when visiting a successfully restructured state-owned enterprise (SOE) of the former GDR, the Berlin Chemie AG.
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Since autumn 2005, FNF has been organizing study tours on various subjects for the North Korean officials who are responsible for the economic reform programmes in North Korea. In their very first visit to Germany, ten economic and financial experts from Pyongyang were invited and the delegation were expected to consolidate their technical knowledge on market economy which they gained while participating at the seminars organized by FNF in North Korea before. Apart from theoretical knowledge on budgeting, expenditure, monetary and fiscal policy, the North Korean economic and financial experts gained also practical insights into the organization of the German financial institutions as well as into methods of tax collection.

The North Korean delegation visited the Bundestag (German Lower House), the Ministry of Foreign Affairs, the Federal Ministry of Economics and Labour, the Federal Ministry of Finance as well as the German Institute for Economic Research (DIW), the German Federal Central Bank and the European Central Bank. The programme included also meetings in the Federal Statistical Office, the State Ministry of Rhineland-Palatinate, the tax office of Mainz as well as the Institute of Finance at

the University of Mainz. In many of these institutions the North Korean delegation was the first visiting group from DPRK ever.

On January 2006, four representatives of the Ministry of Foreign Affairs, the Ministry of Education and the Ministry of Finance from the DPRK were invited by the Foundation to meet experts in German ministries and other institutions and to learn more about issues of economic transformation and education. Topics of future training measures in North Korea were also discussed during the eight-day trip. The delegation showed particular interest when visiting a successfully restructured state-owned enterprise (SOE) of the former GDR, the Berlin Chemie AG. After takeover by an Italian pharmaceutical enterprise the former SOE developed into a successful international company employing 900 people and producing a sales volume of 770 Million Euro.

2.3.2. Channels

2.3.2.1. Conference

In the two big annual conferences organized by the FNF in 2004 and 2005, one of the major channels of communication between the European scholars and the North Korean officials would be through presenting their respectively ideas during the various presentation sessions.

Academic conferences provide a social space for people to present their work,

learn about others' work, and interact informally with one another.¹⁷⁰ So, an academic conference provides a time and place for people with common interests gather together for the pursuit of professional, personal and social goals, and also provides an arena for attendees to learn about others' and their works. As a result, many conferences offer a variety of sub-contexts for different kinds of interactions, including formal presentations such as keynotes, papers, and panels; informal presentations such as may occur around demonstrations or posters, and the more casual exchanges that typically take place during breaks and receptions.¹⁷¹

In addition, conference can also serve as a managed occasion for community learning, supporting both knowledge sharing and knowledge networking building, and this knowledge building can practice through negotiating of interpretations, agendas, methodologies, facts and so on. From these ideas, we can conceptualize conferences as a managed event for:¹⁷²

- i. The formal presentation of recent developments in the field.
- ii. The community evaluation of those developments
- iii. The informal presentation of other relevant development from the community, e.g. from the conference floor.
- iv. Discussion of the interpretations and implications of those developments.
- v. Settling disagreements over these interpretations and implications.
- vi. Inducting inexperienced members into the community of practice by making aspects of practice explicit and therefore capable of being

¹⁷⁰ McCarthy, Joseph F., David W. McDonald, Suzanne Soroczak, David H Nguyen and Al M Rashid. 2004. Augmenting the Social Space of an Academic Conference. *CSCW* 6, 3: 39

¹⁷¹ Ibid p.40

¹⁷² Jacobs, N. and A. McFarlane. 2005. Conferences as Learning Communities: Some Early Lessons in Using "Back-Channel" Technology at an Academic Conference – Distributed Intelligence of Divided Attention? *Journal of Computer Assisted Learning* 21: 318.

apprehended.

- vii. Ensuring that, as a whole, research and/or professional practice progresses both substantively and methodologically.

2.3.2.2 Presentation

During the two big conferences, scholars and officials' ideas and experiences presentations played an essential role in the knowledge transfer process and context. Under this communication channel, presentation is an efficient and direct way to present author's ideas and belief, and through verbal and intellectual exchange, ideas from one side can formally and informally shared and transfer to the receivers and thus contribute to the goal of knowledge transfer.

In the last two conferences, presentations were divided into different sessions with its clear and specific focus of topics. For example, in the EU-DRPK conference in 2004, presentation sessions are generally divided into four sessions, with specific topics on 'sharing experiences in economic modernization', 'examples of international co-operation in the area of economic reform', 'methods to develop economic, trade and investment relations between the EU private sector and the DPRK and 'DPRK's economic modernization initiatives: possible co-operation with the EU'. In each session, scholars from the European countries prepared a concrete and detailed presentation on respective topic and present among those North Korean officials. Here are some ideas which they brought in the two conferences: (for details please look at the following part)

- i. The declining role of state in transition economies

- ii. The power of market (d/s) on wages setting, inflation, interest rate and balance of payment
- iii. The designation of central bank
- iv. The power of FDI on developing domestic economy and technical knowledge transfer
- v. A stable legal protection for investors
- vi. Proliferate knowledge on labor management and IT (Poland)
- vii. The co-existence of SMEs with market economy and centrally-planned economy
- viii. Steps on restructuring of enterprises
- ix. Minimizing the role of government in land control
- x. Enhance workers' incentive

2.3.2.3. General Discussion and working groups

Inside the detailed rundown of the workshops, the organizer tailor-made designed another channel for the communication between the scholars and the officials. During the conferences, they planned a general discussion in each session followed by the 2-3 presentations and designed to increase the mutual communications and interactions.

In the first discussion session held in the EU-DPRK Workshop in 2004, one North Korean participant asked about the advantages and disadvantages when comparing a centrally planned economy to a market economy and how incentives for foreign investors could be increased. In response to these, Dr. Triska replied that the Czech centrally planned economy was extremely inefficient and totally incapable of

attracting foreign investment. In addition, a representative of an economic institution in Pyongyang asked “How did the government keep control on the economic management...and is there any standard of assessing stability?”¹⁷³ According to what Prof. Kokko replied, the function of the state in a transforming economy is to make sure that the market works in a fair manner and to prevent monopolies. He emphasized competition was essential and stability and the behavior of the actors in the market economy must be guaranteed. But, in order to sustain a stable economic development, he suggested that a moderate inflation rate, a growth rate that is not too high to prevent an overheating economy and trade balance could provide a good indicator on the performance of the national economy.

Other than discussion session, the organizer also developed relevant working groups after the normal period of presentation and discussion sessions in order to extend the discussion and allow more in-depth exchange on more technical issues. In the second EU-DPRK Workshop in 2005, the European and the Korean experts decided to introduce two separate working groups, one on ‘Tools for modernizing state-owned enterprises: markets, autonomy, ownership, SME’, the second on ‘Management structures and incentives for managers and workers to enhance output and quality’. In the first working group, Dr. Dallago answered the questions, which were raised by the Korean counterparts about how to modernize the state-owned enterprises (SOEs), by introducing the idea of allowing the rights to use assets by the SOEs.

Undoubtedly, these types of communication strategies were proved to be quite

¹⁷³ Friedrich Naumann Foundation (FNF). 2005. *Report on the Workshop on ‘Economic Reform and the Development of Economic Relations between the EU and the DPRK’*, p 12.

successful in enhancing the discussion atmosphere and the quality of communication. According to Mr. Guy Ledoux, one of the participant in the workshop, said what he witnessed that 'They (North Korean official) would not only listen to presentations, but also ask questions,' and 'the simple fact that such a large number of North Korean officials attended the workshop shows that they are eager to listen and learn from others' experience.'

2.3.2.4. Field Visit

Other than normal communication channel, the Foundation also organized several opportunities for the European experts to visit factories and industrial plant in North Korea, including the Textile Plant in Central Pyongyang which produced suits for men in relatively small numbers for the Chinese and South Korean market as well as greenhouses near the city where mainly water melons and cucumber are grown (imported from Netherlands); The Taedonggang Brewery which is a popular and widely distributed beer in the Pyongyang area; The PyongSu Pharmaceuticals, a joint venture pharmaceutical factory; Tongil Market, with consumer goods such as vegetables, fruit, bread, meat and fish; Kaesong Special Economic Zone (SEZ); "March 16" Wire Factory in Pyongyang which is a joint venture production line for computer cables, a shoe factory and a factory for sealing materials/rings in the Kaesong Joint Industrial Zone.

Throughout the visits, the European economic experts could receive and witness a more direct and first-hand experience about the real face of the economic situation and development in North Korea, and be able to provide a more suitable and realistic economic advice to those Korean counterparts. Moreover, the field visits could also

be served as a valuable and friendly arena to further their academic discussion into a practical policy advice.

2.3.2.5. Lunch/Coffee Break and Dinner

The designation of the lunch, dinner and coffee break would also serve the purpose of widening and extending the mutual discussion among the European experts and the North Korean officials. In communication and sociological perspectives, the behavior of drinking has social meanings and functions. By drinking with other people, people can lower their barriers, relax themselves, feel that they are sharing their time, and thus enhance the communication and social interaction.¹⁷⁴ The words ‘tea time’ or ‘coffee break’ show how drinking is related with open social activities. People serve tea, coffee, wine, or other beverages with snacks to guests during parties, meetings, or many other kinds of gatherings to lower the barriers between people. Also, people often have something to drink while taking a rest or making a conversation with other people. People feel more comfortable and intimate with people with whom they are eating and drinking together. While drinking, people become more relaxed and comfortable with other people, and it makes them more easily communicate with each other and build up social relationships. Therefore, it’s essential to include such kind of activities during the academic conferences in order to provide another arena and space of communication and network building.

2.4. Institutionalization of advice

¹⁷⁴ Hyemin Chung, Chia-Hsun Jackie, Lee and Ted Selker. 2006. Lover’s Cup: Drinking Interfaces as New Communication Channels. Available at: <<http://web.media.mit.edu/~jackylee/publication/ac304-chung.pdf>>.

The influence of expert groups increases if they have access to policy-makers, or even become part of the bureaucratic structure itself.¹⁷⁵ In relation to this, we should note that it is important to revisit the literature on how interest groups influence the policy-making between taking as an insider or outsider status, while the insider would enjoy some privileged access to policy-making.¹⁷⁶ In the case as an insider, difference can also be made between core status (always centrally involved), specialist status (always centrally involved on technical issues), and peripheral status (only sometimes involved). With reference to the literature, it is suggested that insiders, particularly those who enjoy core or specialist status, are provided with the most opportunity to influence policy-making.

As regards institutionalization of advice, we find that the communication between the expert group from FNF and the policy-makers from Pyongyang took place within a semi-institutionalized context of formal bodies and processes. In terms of structure of the community, two factors were affecting its organizational competence. Firstly, other than usual academic scholars who involved in the communication process, some EU government officials and Ambassadors and officials from the United Nations Development Programme would also play a complementary role in assisting the operation of the community. In addition, some other NGOs, such as KETES (Korea-Europe Technology and Economy Services) also involved actively in bridging the network of the EU-DPRK Workshops. Therefore, governmental, intergovernmental and non-governmental actors were centrally participated during the workshops. Secondly, the community members of the FNF

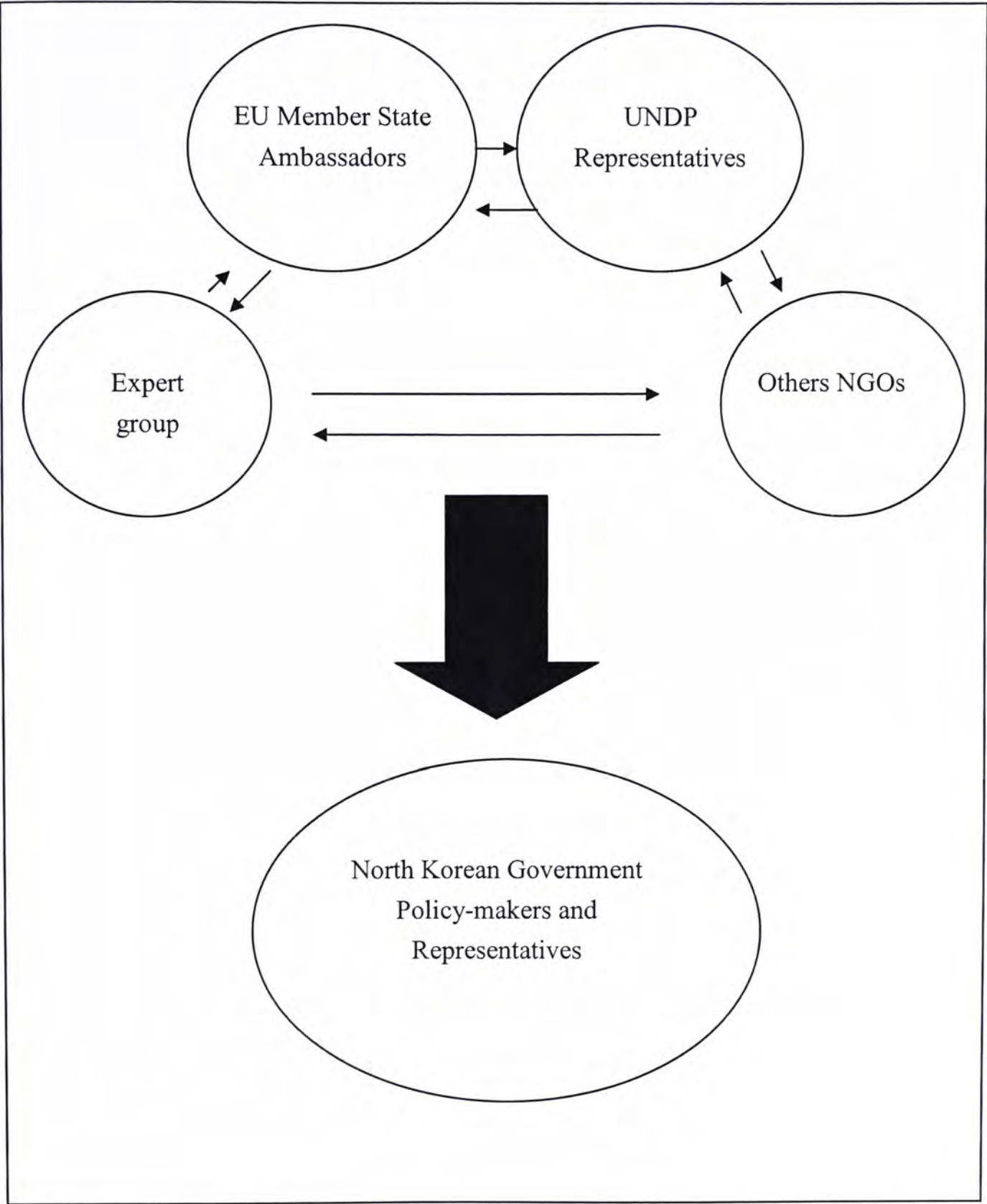
¹⁷⁵ Haas, Peter. 1992. Introduction: Expert groups and International Policy Coordination. *International Organization* 46: 3-4

¹⁷⁶ Maloney, William A., A. Grant Jordan and Andrew M. McLaughlin. 1995. Interest Groups and Public Policy: The Insider/Outsider Model Revisited. *Journal of Public Policy* 14: 18

were meeting annually with the North Korean officials in the last 2 years and engaged a very direct communication and ideas transfer process. Thus, these two factors showed there is a semi-institutionalized network being built in this context.

Moreover, the FNF also formed a specialist status and image of the expert group. Firstly, in the past two workshops, the members of the community are all independent experts from the European countries. These experts were regarded as the expert group as they're typically communicated through the written reports and oral presentations at the seminars and conferences. Secondly, inside the community, some of the members are mentioned as core members as they're being invited in two consecutive years, such as Dr. Ari Kokko, Dr. Dusan Triska and Dr. Rudiger Frank. Also, in terms of governmental officials, the Ambassadors from the United Kingdom (UK), The Netherlands, Germany, Poland and the Representative of the European Commission were also being invited twice which showed they are regularly participated and played a core role in these Workshops.

Table 4.6: The flow of ideas from FNF to the North Korean officials



2.5. Communication strategies

It is important for studies of transnational actors to pay attention to strategy. Strategy, here, is defined as “an actor’s extensive and comprehensive planning of the

use of available means with the object of attaining certain goals attempted in competition with others".¹⁷⁷ Undeniably, it may be assumed that knowledge-based networks do not act in a state of vacuum in which they can easily meet their target without taking other actors into consideration. Thus, it means that they are inevitably have to compete with the other actors, such as governments, companies, NGOs, and perhaps even with other expert groups. In order to promote successfully of their ideas to the policy-makers, there are four transnational strategies which can exert their influence. For example, the power approach, the technocratic approach, coalition building and grass-root mobilization.¹⁷⁸

In power approach, linkage actors attempt to target top decision makers in either domestic political systems or the international system through direct intermediation. The technocratic approach means various actors including IGOs, NGOs, expert groups, and international courts, acting individually or collectively, uses knowledge of procedural mechanisms as well as the legal system, in order to warn the policy trends, to intervene administratively, or to institute litigation. The third strategy, the coalition building approach, means the transnational actors utilize domestic actors to build coalitions, forging domestic policy consensus as a basis for generating transnational coalition. The grass-root mobilization approach focuses on try to build widespread public involvement in several countries. The strategies are more or less directly linked to lobbying and public participation.¹⁷⁹

Referring back to the case, it's apparently that the expert group in FNF more or

¹⁷⁷ Sjoblom, Gunnar. 1968. *Party Strategies in a Multiparty System*. Lund: Studentlitteratur. p.30.

¹⁷⁸ Mingst, Karen. 1995. Uncovering the Missing Links: Linkage Actors and Their Strategies In Foreign Policy Analysis. In L. Neack, J.A. Hey and P.J. Haney, eds., *Foreign Policy Analysis: Continuity and Change In Its Second Generation*. Englewood Cliffs, New Jersey: Prentice Hall. p.238.

¹⁷⁹ Ibid, p.239.

less fitted in the second approach. During the workshops, one of the major objectives of the expert group is to exert their technical knowledge advantages so as to influence the policy-makers in Pyongyang while making their policy change. So, as we can see, during the workshops, the expert group shares no pains and consistently presented various policy ideas on how to transit gradually from a centrally-planned economy into a market-oriented economy. In addition, those European scholars, by using a technocratic style, provided a deeply and specific policy advice to those policy-makers in North Korea. When meeting with those North Korean officials, the members of the community packaged their image carefully as the mixture of technocrats and academic scholars, but not purely a government officials or academic professor, in order to show their balance their professional status which can enrich their persuasive power. For example, one of the North Korean officials appeared to be most interested in a presentation given by the Czech Republic's former Vice Minister of Finance Dusan Triska, who was personally in charge of his country's economic transition from a centrally planned economy to a market-oriented one, demonstrated that their successful strategy on using a technocratic approach.

2.6. Policies recommendation and ideas shared during the two conferences

After analyzing the structure and communication channels of the expert group, in the following part, focus will be shifted on what kind of ideas they presented and delivered during the two workshops and eventually affected the policy outcome.

2.6.1. Workshop on Economic Reforms and the Development of Economic Relations between the EU and the DPRK (31 August to 4 September 2004)

In this workshop, it was divided into several sessions. In each session, there was a specific topic to discuss, such as ‘sharing experiences in economic modernization’ and ‘examples of international co-operation in the area of economic reform’. Within the session, scholars were invited to present his/her papers in front of the North Korean officials and followed by a short and interactive discussion.

So, in the following part, we will go through each parts of the workshops and what kinds of ideas that the scholars presented within that specific session

Session One “Sharing experiences in economic modernization”

Dr. Dusan Triska

“Economic reform process in the new and aspiring members of the EU”

In his presentation, Dr. Triska pointed out Czech model of transformation has often been criticized by renowned institutions and economists, it finally became a success story for a country in transformation. The ‘Czech Way’ of transformation was mainly based on macroeconomic stability, price liberalization and the social safety net. At the core of the transition process was the privatization of 4000 state-owned enterprises through a voucher system. In a second step, a legal framework had been established. The Czech “privatization first” strategy was often criticized. But “western style privatization” that often relied on institutions such as stock-exchanges etc. could not applied to the Czech case. Even though of those criticism, the Czech transformation process (including the voucher privatization) was “strongly re-endorsed” in the Czech Republic, Dr. Triska concluded, with the election of Vaclav Klaus as president.

Prof. Dr. Ari Kokko

“Economic reform process in Asian countries”

Professor Dr. Ari Kokko from the Stockholm School of Economics, gave an overview on economic reforms in Asia that had taken place over the past decades. He said that although most of these reform processes had involved the move from inward-looking to outward-looking economies, they had differed fundamentally between countries. Nonetheless, some common elements could be identified. Firstly, globalization and increasing market-orientation forced these countries to open up their economies to international trade. Secondly, the reform measures proved to be very successful: growth rates up to more than 10% were not exceptions and became known as the “Asian miracle”. Thirdly, the change of the international arena, in particular, the reduction of artificial trade barriers, the increasing mobility of international capital as well as easier access to technology, technical development of telecommunications and transportation made the transition process to an outward focused economy less costly. Professor Kokko stressed that there was “no single right way to achieve transformation” but that successful reforms were always linked to key words “market orientation” and “globalization”.

Session Two “Examples of international co-operation in the area of economic reform”

H.E. Ambassador Radinck van Vollenhoven

“Examples of how the European Commission and Member States have assisted economic modernization initiatives in Europe and Asia”

Speaking of assistance, Ambassador Van Vollenhoven stressed the importance of

ownership being in the hands of the partner and not of the donor country. He emphasized the vital role of good governance in the broad sense of the word that enables foreign assistance to bear fruit. European Community Assistance programmes provide a strategic framework for EC cooperation activities in a given country, according to Mrs. Castillo Fernandez: a sort of a policy mix which includes support to the implementation of association or partnership agreements as well as integration with all other community policies towards a partner country. Although the European Commission itself cannot provide investment funds, it can assist in the provision of know-how, exchanges, training which can be combined with investment funds from other sources. It is important to have a coherent approach from a macro-perspective, and not to deal with single issues only. Mrs. Castillo Fernandez also reiterated that beneficiaries should feel ownership of the programme.

Mr. Abu Selim

“Role of international organizations in assisting economic growth strategies in transition economies”

Mr. Abu Selim spoke on the “Role of International Organizations in Assisting Economic Growth Strategies in Transition Economies”. Mr. Selim outlined the main ingredients of the transition from a planned to a market economy:

1. economic liberalization
2. macroeconomic stabilization
3. restructuring and privatization
4. legal and institutional reforms.

To absorb deterioration in the living standards and quality of life, economic growth strategies need to be implemented. International organizations do assist in economic growth strategies within a set of basic principles and parameters of development cooperation. Since development is the responsibility of the government, the recipient country must be active in driving the right direction and the donors have to respect its decisions. Another crucial issue is mutual trust between the country and its partner. Mutual trust can be built up by a continuous policy dialogue as well as closer and more frequent personal contacts. External assistance in the form of policy intervention programmes and projects should be integrated with the internal policy development process to be effective. Therefore, it is important that external partners have access to true statistical data. External expert advice should focus on how to reach an appropriate national policy decision. Finally, national capacity building through international and human resource development should be at the core of cooperation programmes.

Session Three “Methods to develop economic, trade and investment relations between the EU private sector and the DPRK

Prof. Dr. Rudiger Frank

“Successful strategies to attract and retain foreign direct investment”

Professor Dr. Ruediger Frank, University of Vienna, gave an introduction on successful strategies to attract and retain foreign direct investment (FDI), an issue of great interest to the North Korean side. First, he referred to a number of strengths that would attract private investors:

1. favorable geographic location at the core of North East Asia
2. large reserves of various high quality raw materials
3. a disciplined and well-educated workforce
4. low wages.

Although these preconditions are very favorable, investors also demand security and transparency. Apart from transparency, the host country has to meet a number of preconditions to investment such as nondiscrimination, free transfers, unlimited trade, reasonable taxes and balanced subsidies. Investors want to compete with domestic companies on an equal footing and in accordance with international law. Transfers related to an investment have to be free and the host country has to provide protection against arbitrary expropriation. Investors want to be able to sell their products on the domestic and international market.

Excessive taxation and excessive subsidization of domestic competitors by the state will discourage investors from investing. Another important factor is accessible resources, including good infrastructure and human capital. According to Professor Frank, a number of regulatory, financial and fiscal incentives are indispensable to attract investors. Professor Frank also pointed to the benefits of FDI for the host country, namely, the transfer of technology and know-how, creation of jobs, the formation of human capital, provision of future tax revenues and competition among business sectors. FDI also contributes to the development and restructuring of the enterprise, as well as to fuller international (trade) integration. In his concluding remarks, Professor Frank stressed that access to macroeconomic data like GNP, trade statistics, inflation rates, etc., is essential for transparency and trust.

Mr. Luca Birindelli

“The Role of foreign legal experts in fostering FDI”

Mr. Luca Birindelli, presented the role of foreign legal experts in fostering FDI. The opening of the service sector, in particular the legal services sector, has proved to be a “successful tool” to increase the quality of an investor-friendly environment. Through legal services, communication between foreign investors and the local authorities becomes easier since it promotes the exchange of knowledge and expertise and finally, creates confidence. Advising and consulting clients with regard to the legal, economic and operational framework of the foreign country as well as sharing experiences with the local authorities, for example, drafting new laws and regulations, are the main activities of legal experts. To prevent foreign lawyers dominating the legal sector, the opening up of the local services market in a transition economy needs to be managed very carefully, Mr. Birindelli stressed.

Dr. Tony Michell

“Doing Business in DPR Korea”

"Doing Business in the DPRK" was the title of the presentation of Dr. Tony Michell focusing on problems caused by the strict character of the regulations and logistical shortcomings. According to Dr. Michell, most of the problems are not of a legal nature but concern transaction costs. He also pointed out that US laws would impede the activities of European investors in DPRK since there is a risk that by selling sensitive or so-called strategic products to the DPRK, EU investors could violate US laws and might face legal consequences in the US. Moreover, logistical shortcomings such as the transportation system, the ban on mobile phones etc. make

business difficult. Dr. Michell addressed five major problems and gave some recommendations to facilitate the logistical conditions for investors.

1. the DPRK authorities should issue multi-entry visas to investors and their staff
2. provide a rapid service for suppliers
3. the validity period of investment licenses needs to be increased to give investors greater confidence.
4. a part of the port of Nampo that handles imports should be sold or leased to a foreign management company to prevent delay in transporting goods into the country.
5. the international security situation caused by the nuclear issue must be resolved.

In discussions after the session, European participants pointed out that in their opinion, unless a solution is found to pending security issues, the restrictions imposed by certain countries including South Korea and the EU on the export to North Korea of dual-use technology are unlikely to be removed.

Prof. Dr. Geir Helgesen

“Different business culture: Facilitating business between Europe and Asia”

Professor Dr. Geir Helgesen spoke about “Different Business Cultures: Facilitating Business between Europe and Asia”. His presentation reflected the meaning and function of this workshop, namely how to create trust and confidence among partners with different cultural backgrounds. East and West need a “substantial dose of knowledge” about the culture of the other to be able to develop closer relations. A mutual cultural awareness includes the knowledge about history, culture

and social customs and is even more important than the ability to speak the foreign language. Professor Helgesen quoted the Danish Ambassador to Singapore, Orstrom Moller: "We must know what we think and why we think in the way we do - what is our mindset and why do we have it and why do we think it is the right one for us? Thinking in this way opens the door for realizing that what is best for us may not necessarily be best for others. And that gives the way to the crucial observation that the heart of tolerance is that we care for other people's destiny even if we do not agree with them. Understanding is the key to tolerance. And communication is the key to understanding how other people think and why it may be different from what we think. Unless we communicate and try to understand each other, there is no hope of comparing different ways of thinking with the ultimate objective of shaping a set of values to serve as the mutually agreed framework." It is important for the success of economic cooperation to develop - apart from trust and transparency - the "necessary cross-cultural awareness".

Session Four "The DPRK's economic modernization initiatives: possible co-operation with the EU"

Prof. Dr. Ari Kokko, Mrs. Castillo Fernandez and Mr. Ulrich Niemann

"Role of study visits and training projects"

Professor Kokko, Mrs. Castillo Fernandez and Mr. Niemann outlined the role of study visits and training projects by referring to the private sector, government sponsored programmes and the recent training seminars provided by the Friedrich Naumann Foundation in the DPRK, respectively.

Professor Kokko stressed the importance of the training of translators, especially in business English and Korean. To avoid misunderstandings, both sides should agree on economic terms with common content. Training in economic management is another important field. “We know too little on what is going on here [in North Korea]”, Professor Kokko said. Therefore, it would not be that easy to design suitable training measures for North Korean participants.

Mrs. Castillo Fernandez presented some examples of economic modernization initiatives which could be of interest for the DPRK. In China, cooperation is focused on the support of institutional reforms, changes in legal framework, development of human resources and market opening. Moreover, the (European) Erasmus Mundus Programme provides scholarships to Chinese post graduate students. Other programmes support cooperation in the area of intellectual property rights and technological development. In Russia, economic training programmes were provided for managers (middle management). Unemployed scientists from the former chemical and biological weapons-sector were given the opportunity to work in research institutes in Moscow and Kiev, co-financed by the EU. By providing support for administrative reform and the private sector, the EU also assists Vietnam in its transition to a market oriented economy. Apart from financial aid for nuclear safety, the EU also promotes people to people programmes in the Ukraine.

Mr. Niemann gave a short overview over past and future activities organized by FNF in the DPRK. He described how cooperation activities with the DPRK had involved training in the system of national accounts and commercial accounting at the end of March 2004. This had gone very smoothly and a good working relation had been established. The format has proved to be the right one for such a purpose and

was mutually satisfactory. Looking to the future, Mr. Niemann said that providing a four-day training seminar on a very specific, technical and complex topic could only be a first step. Further complementing training activities designed to deliver more in-depth information and practical training were crucial and needed here. To have a multiplier effect, special academic and vocational institutions, such as universities, management schools, international organizations and companies should join these efforts and offer follow-up activities in the DPRK and abroad. Taking into account that these efforts are extremely useful and would hopefully increase in numbers in the future, Mr. Niemann emphasized that the need for monitoring, information and coordination of these activities would become even more important. He concluded with the wish for more transparency, advance information and coordination, more efficiency and coherence which would benefit all parties involved in the joint efforts and objectives.

Ms. Nicole Risse

“Establishing information networks between potential trade partners and training projects”

Ms. Nicole Risse gave a short presentation on “Establishing Information Networks between Potential Trade Partners and Training Projects”. She concentrated on the three main activities of Korea-Europe Technology and Economy Services (KETES):

1. information gathering
2. network building
3. capacity building

According to Ms. Risse, it is of the utmost importance to have information on business actors on both sides and in a second step, to organize information networks between potential trade partners. The KETES homepage and library provide useful information on business, law, IT, agriculture, energy and environment for North Korean and foreign actors. Network building happens through trade fairs and exhibitions in Europe and the DPRK. KETES promotes DPRK companies to potential multipliers in Europe. In cooperation with the Europe-Korea Foundation, KETES organizes training seminars and workshops in the fields of business and economics for students and experts in the DPRK and abroad. KETES also supports DPRK students studying economics, IT and medicine at European universities.

2.6.2. Second Workshop on Economic Reform and the Development of Economic Relations between the EU and the DPRK (12-14 October 2005)

Session one “The Role of the State in the Economic Management”

Prof. Dr. Ari Kokko

“Economic System and the Role of the State”

After the collapse of the Soviet Union and the economic transition processes that have taken place in most of the former centrally planned economies, there are few countries that rely solely on the state as the provider of goods, services, and economic growth. It has been widely accepted that markets and prices are essential in driving the economies in growth and the chief momentum in distributing the responsibilities of all the resources in the market. However, different countries followed different paths of reform and development with regards to their distinctive values, experiences

and level of development. By the way, it is inarguably that the centrally planned economy and the laissez-faire economy are at the two extreme models of development.

However, once a country that are trying to reform and restructure its economy from a pure planned economy into a market economy, we can qualify it as a ‘transition economy’, for example China, Vietnam and Russia. These economies abandoned central planning and are in transition towards a more market oriented system, but the process of transformation has not yet been completed. Therefore, state, are still controlling a large proportion of power, including ownership of assets, creating institution infrastructure, establishing property right and legal system. State-owned enterprises (SOEs) were illustrated as the best example on how economic transformation took place in a transitional economy. In order to stabilize the transition economy, SOEs were responsible to maintain the high level of employment (especially for the industrial sector) and welfare system for a certain period of time.

Other than transition economies, there are some other economic models which categorize different kinds of economies. Liberal market economy lies the closest to the theoretical laissez-faire economy and represented by the US and some other advanced Western economies. Although the state holds an important position as a provider of public goods and a guardian of the rules and rights of individuals and firms, it has a much less active role than in transition economies.

“Welfare state” and “developmental state” are known as the two intermediate example of this economic categorization spectrum. The common characteristics for these two models is that the role of the state is significantly more prominent than in

the liberal market economy, but the focus of state intervention is found in different areas.

In evaluating the four systems listed above, the author provided several reasons to support when regards to different circumstances, different economic systems would be chosen. Firstly, in regards to the short terms and long terms return, the highest short term growth rates can probably be achieved in the transition economies, where many commercial opportunities are unexploited, and where the initial productivity levels are low enough to leave much potential for convergence and catching up.

Secondly, in terms of social stability, welfare state systems can be anticipated to generate the most equitable and stable development. Comparing with transition and developmental economies, several population groups are under-privileged and in a vulnerable position while facing tremendous transformation pressure. Concurrently, liberal market economy also rewards entrepreneurship and hard work, and resulted in a polarized social structure.

To conclude, these economic considerations can be portrait as a debate between growth and equity. Countries with historical consideration on equity than growth, like Nordic countries, weighted a relatively higher in egalitarian economic and political structure than others. In contrast, the Asian developmental state model in the 1980s attracted the attention on growth rather than equity. Since then, neo-liberal economies have attempted to build as the most dominant approach in every parts of the world. But, the debate between equity and growth is still struggling and looking for a balance development strategy.

Dr. Dusan Triska

“Redefining the role of the state: public planning and management tools”

Dr. Dusan Triska, former deputy Minister of Finance during the transition of Czechoslovakia, focused on the topic Redefining the role of the state from central planning to development planning with market incentives. He pointed to the paradox of reform in which government officials have to begin implementing significant changes while operating under a pre-reform framework – at a time when the government needs to be strong enough to implement changes it weakens itself by transforming its personnel, objectives and methods. Dr. Triska referred to the differing degrees of intensity in sectors undergoing transition. The level of intensity would depend on the specific circumstances of the country and the stage of the overall transition process. He then described the “mass privatization programme” that had taken place in Czechoslovakia. This was based on a system of voucher distribution and within less than ten years half of the medium and large enterprise assets had been privatized through voucher privatization.

Mr. Max van der Sleen

“Macro-economic tools of the State to manage the economy: Theory and experiences from market economies, transition countries in Europe and developing countries”

Macro-economy is widely been accepted as the driving and decisive indicator for a state for managing to develop a market economy. Policy, including fiscal and monetary, are specifically important for this transition.

By inviting the experience of the transitional economies in Europe, the author of this paper is trying to develop a basic mutual understanding of the role of macro economic policy tools in an open market economy, and to stimulate an exchange of views between the workshop participants from the DPRK and the EU on the relevance of macro-economic insights for the direction of the reforms in the DPRK.

Starting from the macro economic policy tools in market economies, the author mentioned the power of market (demand and supply) in deriving the price of market (wages and inflation), money market (interest rate) and foreign exchange market (exchange rate) and trade market (balance of payment). Therefore, it would affect the whole business environment.

Then, what role should the government play in this macro market economy? The author stated that let markets function on its own but government has also an important role to play, including building and safeguarding the institutions, rules and regulations and providing sufficient information as a broker of market.

To be more specific, what we can expect the government should do in this circumstance are: reducing tax-created discentives, privatizing public enterprises, reducing those regulations and policies that give much discretion to some public employees, such as those, for example, that grant import permits, tax incentives, and so forth. Therefore, as we can anticipate, government should pay a more neutral role in the economy.

In monetary policy, the author brings the case in Europe in order to demonstrate the price (currency) stability function of the European Central Bank. Through various

ways, such as control the money supply, influence the interest rate and issuing government bond, directly and indirectly affecting the commercial banking system and the financial markets.

In other example, in accordance to the observation on the exchange rate (floating or fixed), the government can fully understand the balance of payment (import and export) of her country and carefully tailor-made a foreign trade regime which can truly reflect the real import and export situation.

Moreover, in the fiscal policy, however, if a country which facing a situation of real expenditure more than income, we can regard it as a deficit budget. In response to this, raising tax, inviting foreign investment and borrowing are some possible solution to resolve the problem and increase the government revenues.

In arguing the general principles, there is a need to discuss the vision of the concept of shock therapy, which implemented by the former Eastern European countries during the transitional period, and the gradual reform process, which developed by the Chinese and Vietnamese experience during the late 1980s.

The analysis of the transition experience in Central and Eastern Europe can be illustrated as the fact that economic liberalization and political liberalization were implemented at the same time within a very short period of time. In central and eastern Europe, the whole transition started with price liberalization and trade liberalization for consumer goods. However, it's inevitably that prices will fluctuate tremendously after the initial period of transition and inflation will be happened. In order to address this problem, government should promote an adjusted monetary

policy which geared at low inflation and needs to make sure that the interest rate should be kept above zero. Secondly, for the exchange rate, by bringing the experience in Poland, a short period of government controlled fixed exchange rate should be implemented before the fully opening up of the exchange rate to a floating rate. Moreover, as the lack of development expenditure in those central and eastern European countries, there was a need from the neighboring countries assistance and international borrowing to support and finance the reforms in their economies.

Session two “Conditions and Strategies to Attract Investment: Experiences of the new Member States of the EU”

Dr. Andrea Szalavetz

“Mobilizing foreign capital to promote catching-up and modernization: The Hungarian experience”

The main message of this paper is that mobilizing foreign capital/investment is indispensable since it plays an outstanding and indispensable role in driving the economy and the modernization-inducing FDI with minimal state interventionism, by adopting a liberal policy stance.

Through referring to the role of foreign investment, it highly praised the state to allow the foreign company to hold at least majority shares or even 100% in the business. Actually, the reason for this appraisal simply because it can draw foreign money to help to develop domestic economy, learning entrepreneur knowledge and skills, imported foreign high technology machinery and booth the restructuring process of the business in the country.

In regards to the Hungarian experience on economic reform during the transformation era, the most obvious and catchy lesson that it showed is that whenever a foreign company initiated an cooperation with local business corporate, it's of utmost importance to catch every cooperation opportunity. In addition, other than that, the domestic government should actively provide some sort of investment incentive and attraction for foreign investors, such as tax exemptions and free trade zones.

More importantly, as it mentioned, there are basically three main policy which are the cornerstone for the successful transformation in Hungary economy. Firstly, the creation of industrial customs free zones (ICFZ). Secondly, developed an advanced system of industrial parks. Finally, increased MNC's regional embeddedness by which strengthening MNC's local ties by promoting backward linkages.

Dr. Dusan Triska

“Designing a legal framework for economic activity”

Dr. Triska stressed the importance of ‘designing a legal framework for economic activity’. “A stable legal frame and its reliable enforcement are the necessary pre-conditions of decent reform”, he said. In the Czech Republic simple laws (Acts) on private enterprises and privatization represented a “minimal transformation corridor”. He stressed that corruption and other economic crimes are major dangers for the government in transition and that the “unavoidable lack of law enforcement represents the major danger to the promoters of change and thus the chief obstacle to the genuine transition”. Finally, he reminded participants that it would take years to transform the state-planning economy but it might “take decades, even generations to

adapt to the outcomes and changes brought by transformation”.

Dr. Jacek Mironski

“Human Resource Management and Investment in Human Capital (development of existing skills and technical expertise)

Human capital has long to be regarded as the decisive factor on the evaluating of a company's competitiveness. During the transformation period, developing skills and technical expertise in human resource management plays an important role in assisting the whole restructuring progress.

Poland, was long cited as one of most successful economies who undergone a massive human resource training programme in history. In order to better equipped the new employee in Poland, the Poland government and some non-governmental organizations promoted the development of the companies itself (enrich the consultation and training firms) and trained the employees departing from traditional values (subordinate, discipline and fulfilling diligence tasks only).

One example of this human capital project is called EQUAL. EQUAL is part of the European Union's strategy for more and better jobs and for ensuring that no-one is denied access to them. The aim of this project is by using new ways to tackle discrimination and inequality for those people who are working and those looking for a job. Among many other objectives, this project is basically focuses on supporting on adaptability of firms and employees to structural economic change and the use of information technology and other new technologies.

Under EQUAL, the project titled “Model System of Companies Staff Adaptation to Structural Changes in Economy” intended to create a model system to support entrepreneurs and company employees in the creation of a learning process in companies undergoing restructuring, e.g. proliferating the knowledge on management, providing training to the most threatening sectors of labors (old and marginalize).

Another project called “Mentoring through IT” is to develop an effective model for the mutual transfer of knowledge between groups of older people (over 50) and people entering the labor market, with the use of IT tools. This model, by using IT knowledge, can significantly help reduce the discrimination these people suffer and will have a significant impact on the efficiency of the economy.

E-Dialogue is another project which is supposed to develop and test for supporting the abilities of small-and-medium-sized enterprises and their employees to adopt to structural changes in the economy. It has dual nature, combining the provision of an innovative information system to companies, which supports human resources management, with raising employees’ qualifications.

The “ElaStan Promotion of Flexible Employment Methods” was another project which wanted to promote innovate solutions on the labor market and new employment opportunities. By targeting both SMEs and Large companies, it wants to promote the use of provided by information society in making the forms of employment more flexible (e-working) and lowering the unemployment ratio.

Other types of project like “Opole e-Craftsman” and “EUROSTER Partnership for Increasing Adaptability of Workers in the Shipbuilding Industry” are intends to

raise the productivity, the smooth of restructuring and the adaptive capabilities of craftsman and workers in shipbuilding industry by using information technology respectively.

Session three “Restructuring State-owned Enterprises and Agricultural Sector:
Methods and Implementation”

Prof. Dr. Bruno Dallago

“Creation and development of small and medium-sized enterprises (SME)

Different countries in transformation have been considering the role of small and medium sized enterprises (SMEs) as potentially and actually important for the process of economic development. In several findings showed that SMEs can be:

1. not necessarily coincide with systemic transformation from socialism to capitalism
2. functionally both a planned economy to a market economy
3. not alternative to, nor compatible with large firms.

According to the experience in some Central and Eastern European countries, SMEs was not functionally and naturally a product from either only of socialism or capitalism. In some cases, SMEs lead the economic transformation in some socialist countries. However, in some other cases, SMEs can also cooperation with some larger State-owned companies in sustaining the economic system of socialism.

However, there are several limitations hindering for the development of SMEs

during the transformation, including the insufficient domestic capital, the lack of interest of foreign capital in taking over the firms, the negative effect brought by the transformation of macro economy on the SMEs (insufficient focus), unconcern of the development of institutions, insufficient knowledge and skills support the transformation of SMEs.

By the way, SMEs are absolutely playing an important role in directing the transformation of the economy. On one hand, SMEs, through the vertical integration with the large firms, can attract additional financial resources from foreign investors and accumulate their professional knowledge and entrepreneur skills. Moreover, on the other hand, through the joint cooperation with the foreign investors, the legal system will reform and issued a lot of protection rights for foreign investment. Therefore, it can delocalized the financial burden outsource some of the financial activities with a comparatively lower cost.

Therefore, as we can see, the only economically sound way to maximize the advantages, while minimizing disadvantages and keeping control over foreign investment is to make the economy and domestic firms as attractive as possible, so that the foreign investor has a strong interest in the country and in keeping the investment for a long time.

In policy suggestions, in order to sustain the development of SMEs, local banks are in the best position to finance SMEs because they have superior knowledge of local circumstances and the reputation of SMEs and their entrepreneurs. Also, microcredit has an important role for the smallest businesses because it is simple and the risk modest. It may also promote the cooperation among small firms and the

development of networks. In addition, the provision of private consultation services during the first stage of firm creation, including training and vocational support will be also essential for the survival of the SMEs.

Dr. Brigitta Kauers

“Experiences with the Treuhand agency in Germany”

Due to the unresolved economic problems continued to be happened in the eastern part of Germany during the 1990s, in March 1990, the Treuhand agency was entrusted with the responsibility of an economic restructuring process.

Through assigning the Treuhand agency to take the initiative to lead the reform in Germany, it firstly administered and disposed the reform of agriculture and forestry. Since then, it handled the issues related to the enterprises and take-over of redundancy scheme payment of enterprises unable to pay it.

In addition, it also carefully planned and monitored the process of the privatization of the East German companies. Through the steps by steps criteria, the Treuhand agency dealt with the restructuring and modernization of the enterprises and reduces the unnecessary numbers of employers and workers so as to raise the competitiveness of the enterprises, applied massively of the social flanking measures (including the Labor Promotion Law).

The Treuhand agency also placed great importance from the very beginning on attracting foreign investor involvement. They signed more than 40,000 contracts with domestic companies and enjoyed several investment rights and guaranteed more than

10% of all jobs and investment commitment.

Even though the Treuhand agency finished its work with a deficit of 104 billion EURO, but there are also numerous good news resulted, such as it preserved the chemical industry, raised the wage standard, brought foreign investment and know-how and planned the modern infrastructure development which can provide an ideal condition for innovation.

Prof. Dr. Michael P. Cuddy

“Some thoughts on agriculture and rural development in the DPRK”

In regards to the agricultural development in North Korea, self-sufficiency, including food, production, land, labor, capital, and materials inputs, should be sufficient to sustain the total population and there should be a stable mechanism to distribute the food to all members of the population.

However, as the writer stated clearly, there are numerous difficulties that North Korean need to face on agricultural development.

Land is the major constraint in North Korea. Inside North Korea, not only it lacks of sufficient arable land, but also the size of it hindered its mechanization. In addition, the uncertain quality of seeds, fertilizers and the lack of skills and knowledge of production are the basic limitation of the development of agriculture in North Korea.

Moreover, due to the political consideration, North Korean government refused

to privatize and marketize the ownership of the land, production of the crops, price of the products, and also the way how to distribute the products. However, as the writer cited the case in China before, it praised the land reform and privatization of agricultural policy in China (farmers are allowed to sell remaining crops to the market with an uncontrolled price).

One of the major suggestion from the writer is that the retreat of the role of the government in the agriculture. After minimizing the role of the government, farmers' income and profits will be completely determined by the market and will stimulate the development of the consumer industry also.

As the North Korean also wanted to address the economic imbalance situation between urban and rural areas, the writer advised that the mechanization of the rural economy would be one of the possible solutions to this problem. As according to the Chinese experience, the central government can invite local authorities in towns and villages to set up some enterprises with independent or joint ventures management nature. In order to raise the productivity and standard of living in the rural area, it's essential to transform the rural economy from primary production to semi-industrial production.

However, a rapid and uncontrolled market transformation would bring tragedy effect on the macro-economy. Therefore, state, instead of fading away in market economy, but still keep a pivotal role in providing the institutional environment in which a market economy can operate. It also provides the checks and balances, the 'carrot and the stick' in achieving social objectives in co-operation with private business within the market economy.

Two Working Groups

In this workshop, the FNF organized two separated workshop groups in order to extend the discussion and further developed the interactions and dynamics after the presentation sessions.

Tools for modernization state-owned enterprises – markets, autonomy, ownership, SME

In order to allow more in-depth discussion and exchange on more technical issues between the European and the Korean experts, the foundation decided to introduce two working groups, which designed to further developed their discussion.

In the first working group, many questions from the Korean side dealt with issues of how to modernize state-own enterprises and how to create small and medium sized enterprises (SMEs). Ownership of SMEs, property rights and methods of auditing state-owned enterprises were among the first points discussed.

Throughout the discussion, Dr. Dallago said that there isn't any contradiction between centrally planned economy with the creation of SMEs. But, during the process of privatization, private property right should be developed and this could supplement the development of the SMEs.

In addition, Mr. Van der Sleen raised the importance of auditing and explained this is legally necessary which state-owned enterprises should also be included. In the conversation, he explained auditing can contribute not only to quality improvement

since the auditing report can cover a full year of operation, but also can check and raised the working incentive of the workers as they may lose their job if they fail to work efficiently.

Finally, one Korean expert wanted to know how output and quality of the product could be increased. Dr. Szalavetz answered that replacing old machinery with new models would promptly increase the productivity, but, at the same time, giving managers and workers more freedom for decision making in their companies and enterprises on the microeconomic level would also provide an incentive to boost the production.

Management structures and incentives for managers and workers to enhance output and quality

The second working group on management structures and incentives for managers and workers to enhance output and quality started by Dr. Triska who wanted to know which institution sets the price and what criteria is applied when determining the price. One Korean expert replied that the State Pricing Institute sets the price and somehow the mechanism of demand and supply is applied while setting the price for strategic goods, such as oil and rice.

Then, in the following rounds of discussions, the Korean counterparts exchanged actively theirs' views on profit sharing mechanism between the state and company, the role of state in controlling the prices and wages where to what extend should the state allows some room of flexible of price setting for company, the level of wages change accordingly with the sales profit, the function of Central Bank in manipulating the

economic stress, such as exchange rate and inflation and finally how to attract foreign direct investment (FDI) and the institutional changes respectively.

3. Conclusion

Throughout this chapter, we made a deep analysis on the interaction between EU and DPRK in non-governmental perspective, specifically focused on one of the most influential NGOs in this area, the Friedrich Naumann Foundation (FNF). The FNF provided various academic and professional services in different countries, and also been organizing numerous training workshops and study tours for the inter-cultural and economic exchanges between the scholars and officials from the EU and the officials in North Korea. The bilateral relation was built upon since 2004 after the FNF was invited to have a diplomatic visit to Pyongyang.

Among all other activities, the two big workshops which organized by FNF proved to be one of the most important knowledge shared platform for the North Korean officials. It's indeed true that North Korea was facing a tremendous economic crisis in recent years as the poor performance of national economy contributed to a high pressure on the Pyongyang government to seek for some alternative solution to this problem. Thanks to the support of FNF, they organized two training workshops, with invited 10-15 economists from different European countries but having a similar background of sharing the expert knowledge on transitional economies and having some personal experiences on the transformation from socialist economy into capitalist economy. These scholars, with the fully supported by the FNF, no matter on finance, network and meeting medium, through various institutionalized channels provided their expert advices and professional opinions on the North Korea current

situation. Therefore, it can be understood that we can see there is an early stage of epistemic community is emerging and development through using the transnational advocacy network method to begin to build up gradually. With the support of NGO or foundation, the epistemic community will gain its momentum and power to consolidate the network its built and eventually establish a mature, well-structured and densely-networked epistemic community in the coming future.

Hence, in the following chapter, discuss will be made on how the ideas raised by those experts in the groups transform into real political outcome and eventually shaped the policy direction in North Korea.

Chapter Five

The Distinctive Path of North Korean Reform and the Policy Impacts of the Expert Group

After reviewing how the expert group has emerged, developed and transferred their ideas through close cooperation with the Friedrich Naumann Foundation (FNF), it is suitable to reflect upon the policy impacts of the recent economic reform programs or incentives implemented by the North Korean government.

However, before linking the ideas to policy outcome, it's the fact that big and substantial changes of reform in the last few years in North Korea was not easily to be found. This is due to the fact that the basic economic situation in North Korea was overcoming a new set of challenges, including the bad economic figures, a hyperinflation occurred in 2005 and the re-introduction of the centralized food rationing system in 2005. These setbacks demonstrated that there are fundamental problems in North Korea's economy. In addition, since the ruling elites in North Korea observed carefully the Chinese reform model and have been considering to borrow it. The model, tried by the former socialist countries in Europe, play an alternative recommendation for the North Korean official to consider and therefore it's predictable that the North Korean officials preferred a mixed economic strategy changes of its economy will only be made gradually and pragmatically.

1. Similarities between North Korea and Central and Eastern Europe

In contrast to the countries of Central and Eastern Europe, the political regime in North Korea survived the epochal collapsed of communism. The shock waves unleashed by events like the opening of the Berlin Wall in Germany, the 'Velvet Revolution' in former Czechoslovakia and the banning of the once all-powerful Communist Party of the Soviet Union did not reach the northern part of the Korean peninsula, where socialism went into history's extra-time.¹⁸⁰

The collapse of North Korean economy in the mid-1990s showed a chronic problem inside the structure of the national economy. With the loss of investment from its socialist partners, the whole set of economic supply collapsed, including energy, industrial development and food production. Under these conditions, the North Korean leadership is attempting to restructure the economy. In July 2002, the government announced some measures in the field of several sectors of economic policy: the retreat of state from price setting, allow state farmers to sell some of its surplus to the market etc.

However, measures taken so far suggest that the North Korean leadership has decided against Chinese-Style reform and in favor of the sort of reform deployed repeatedly from the 1960s by the state and party leaders of the formerly socialist countries of Central and Eastern Europe as they attempted to improve the performance of their planned economies. Therefore, in the following part, several aspects of economic structure will be discussed as proving the Eastern Europe economic structure is similar to modern day's North Korea and as a result it's natural that the Pyongyang leaders would look at the reform possibility and route by the

¹⁸⁰ Gey, Peter. 2004. North Korea: Soviet-Style Reform and the Erosion of the State Economy. *International Politics Society* 1: 33.

former socialist countries in Eastern Europe.

Firstly, in the phrase that the government used to describe its economic behavior, instead of using the terms reform and opening, North Korea refers to rebuilding (Kaegon) and improvement (Kaeson); recently it added the word 'silli' (meaning profit or practicality). Yet North Korea denies that it has adopted the market-oriented approach chosen by China, instead claiming that the rebuilding and improvement efforts are geared toward building up a powerful state and a self-reliant economy.¹⁸¹ Ironically, the term which the government chooses can reflect what the government believes. In the Pyongyang's rationale, the idea of 'practical socialism' is quite similar to the economic improvement policy in 1960s, which took place in the former socialist countries in Eastern Europe. At that moment, Hungary conducted a set of market reforms in gradual steps. Even though the objective of that reform was not a market-based economy, Hungary emerged better prepared on the institutional economic front than the other countries for the dramatic political liberalizations of 1989-90. Reforms had already led to price and trade liberalizations and developments in the small-scale private ownership sector, and Hungary had also introduced a two-tier banking system, a tax reform, and a corporate law.¹⁸² However, these re-adjustment steps were retreated and abolished after some years' of experiences. These structural re-adjustment steps reflect a similar rationale behind the North Korean officials, which the main intention of the government is not focus on market reforms, but to temporarily re-adjusted the economic failure

¹⁸¹ Yong Chul, Chung. 2004. North Korean Reform and Opening: Dual Strategy and 'Silli' (Practical) Socialism. *Pacific Affairs* 77, 2: 285.

¹⁸² Bruno, Michael. 1992. Stabilization and Reform in Eastern Europe: A Preliminary Evaluation. *IMF Staff Papers* 39, 4: 22.

Secondly, inside the economic organization and level of development, it seems that there are some similarities between the former East European countries with today's North Korea. Unlike the Chinese-Style reform model, North Korea faced a similar reform background with the Eastern European countries as agricultural production was not the sole or dominant sector of development. In North Korea, because the basis for agricultural production has been largely destroyed by soil erosion and salinification, and farming traditions have been shattered, as in Russia. According to Table 5.1, while in China around 70% of the working population was employed in agriculture when the reforms began, the farming sector in North Korea, which has about 30% of employees, would be too small to get the whole economy back on track.

Table 5.1 Percentage Distribution of Labour Force at Time of Reform¹⁸³

Sector				
Country	Year	Agriculture	Industry	Service
Czech Republic	1989	11	39	50
Slovakia	1989	15	34	51
Poland	1989	7	37	56
Hungary	1990	15	36	49
Soviet Union	1990	19	38	43
Ukraine	1990	20	40	40
Belarus	1990	20	42	38
Romania	1990	28	38	34

¹⁸³ Noland, Marcus. 2000. *Avoiding the Apocalypse: the Future of the Two Koreas*. Washington: Institute for international Economics.

Bulgaria	1989	19	47	34
North Korea	1993	33	37	30
China	1979	71	15	14
Vietnam	1989	71	12	17

Therefore, it's rational not to start the reform in agricultural sector, like the former socialist countries in Eastern Europe. In Eastern Europe, the main priority of their market reform started gradually on price, consumer and industrial sector. So, in terms of this sequence of reforms and the lack of the market momentum of the agricultural sector, the North Korean government shared the same circumstances with the Eastern European countries.

In addition, in the area of market structure, the situation in nowadays Pyongyang shows a similar picture with the Eastern European countries during the Cold War era. Heavy industry is regarded as the leading sector of socialist economic of development. In the 1960s, most of the formerly socialist countries in East Europe experienced a rapid stage of industrialization while some of the industries received a great percentage of government support during that period. During that period of time, most of the Eastern European countries emphasized mainly reflects two factors: first, the obsessive growth orientation of the Stalinist model and, second, trade patterns instituted by the Soviet Union, which has induced them to develop large industries to process Soviet raw materials and then re-export them to the Soviet Union in semi-finished or finished form. This development priority and model coincides with the situation in North Korea. North Korea's economic strategy has emphasized heavy industry in each of its economic plans. In its economic development history, the fundamental strategy was to consider heavy industry the priority, and neglected the

focus on light or consumer industry. Therefore, in terms of domestic economic structure, both Eastern European countries and North Korea share a quite similar background, which shows the North Korean can refer the history, lesson and path of the economic transformation in the Eastern Europe.

2. From ideas to policy: What are policy impacts from the expert group to the North Korea economic reform?

2.1 IT and software development

Obviously, North Korea is one of the world's least globalized countries, but it has long produced ballistic missiles and now even a nuclear arsenal. However, the information technology and software development was far left other developing countries. Since the North Korea openly declared the essential mission to rejuvenate its domestic economy, computerization and software development was not a top priority task for the Pyongyang government to address on. But, since in recent years with further cooperation with the European countries, North Korea developed its new strategy by actively inviting European expertise and software companies to Pyongyang and started their bilateral cooperation.

While in the second workshop on economic reform and the development of economic relations between the EU and the DPRK in 2005, Dr Jacek Mironski, the head of Business Communication Department at Warsaw School of Economic in Poland, presented his idea on how information and communication technology (ICT) would enhance the human resource development, labor market optimization and productivity. It's indeed that ICT is considered by many developing countries as a

leverage for socio-economic development. This view is encouraged for example by India's success in the software industry.¹⁸⁴ At the same time, the Information Technology (IT) sector development in North Korea was long to be premature and slow in progress. But, since the stimulating ideas which raised and discussed between Dr. Mironski and with North Korean officials, North Korea decided to modify its IT strategy by further and extend their cooperation with the European countries and tried to borrow their lessons and experiences. Therefore, since recent years, there were growing numbers of European companies which started to hold joint company or IT projects with the North, and this new road was built upon the ideas during the last two workshops.

2.1.1. Case one: Nosotek

The Nosotek (Number One Software Technology) JV Company founded in 2007 is the first foreign-invested joint venture company in the IT-industry on software and research development in North Korea. It is founded by the General Federation of Science and Technology (GFST) of DPRK and experienced European IT-entrepreneurs. In addition, it is jointly headed by a German and a French IT-engineer, and its business volume is already substantial and rapidly increasing.¹⁸⁵

In operation, *Nosotek* is jointly run by European IT engineers together with the North Korean counterparts. They have presently 50 engineers and a strong production line. For the products which they made, they specialize on offshore IT outsourcing services already have produced a large range of software products. Among those

¹⁸⁴ Heejin, Lee and Huang Jaeho. 2004. ICT Development in North Korea: Changes and Challenges. *Information Technologies and International Development* 2, 1: 75.

¹⁸⁵ Nosotek. 2008. Available at < <http://www.nosotek.com/index.htm>>.

finished products, most of them are scientific software, video games, web applications, embedded software and 3D virtualization tools.¹⁸⁶

In the North, there are several strong potential points which provide a concrete platform for the European companies to extend their cooperation with them and eventually improve the performance of their economy. First, it is human resources. Throughout the interview with Mr. Ju Jong Chol, the vice president of *Nosotek*, He named that there is a huge pool of local talent in North Korea who are expertise in software engineering which have an average academic math level superior to their western or Indian counterparts.¹⁸⁷ This great supply of talented IT software engineers was well-matched with the lack of popularity on information technology among the youth in Europe in recent years, such as the Netherlands, the enrollment in courses in information technology is not attractive anymore among the young people and contributed to a shortage of software engineers.¹⁸⁸ Second, since in recent years, North Korea was improving its domestic criterion which tries to attract the European counterparts to invest on the IT sector in North Korea. Lowering their local tariffs is one of their potential advantages as this gives the European firms considerate cost reductions. In addition, according to the feedback given by one of the participants in the IT study tour to North Korea in 2007 which organized by the GPI Consultancy, a Rotterdam-based consulting company, it's indeed that the commitment of North Korean IT-firms on the cooperation projects is so high and outsourcing work to North

¹⁸⁶ Ibid

¹⁸⁷ Interview Blog. 2008. *Interview with Mr. Ju Jong Chol (Vice-President of Nosotek)*

Available at:

<<http://www.interview-blog.de/unternehmerinnen-und-geschäftsideen/nosotek-is-the-first-european-invested-software-development-research-company-in-the-dprk-with-the-head-office-in-pyongyang-interview-with-mr-ju-jong-chol-vice-president-of-nosotek/>>.

¹⁸⁸ Tjia, Paul. 2006. North Korea: an Upcoming Software Destination: Surprising Business Opportunities in Pyongyang. *GPI Consultancy*. Available at :<www.gpic.nl/IT_in_NKorea.pdf>.

Korea could also be used to foster innovation and development.¹⁸⁹ Therefore, over the recent years, North Korea was building a new hardware and software capability which attract the European companies to further their investment and cooperation in the IT sector with the North and even optimize the quality of the labor in North Korea.

2.1.2. Case two: *Pyongyang International Technology and Infrastructure Exhibition (PITIE) 2006*

Other than joint venture cooperation, North Korea was also engaging a proactive ICT policy which holding big exhibitions on technology and infrastructure development with the European countries in recent years. Among those exhibitions, the Pyongyang International Technology and Infrastructure Exhibition (PITE) was one of the most attractive and comprehensive platform which brought enormous business cooperation opportunities between European companies and the North Korean enterprises.

PITE was organized jointly by Messe München International (MMI) and Korea International Exhibition Corporation (KIEC). KIEC has been having a strong connection with the DPRK Ministry of Foreign Trade combined with its irrefutable local knowledge of the market. As a pioneer organizer of trade fairs in DPRK, the KIEC is further in an excellent and most experienced position to ensure the smooth handling and operation of all trade fair requirements thereby ensuring a hassle free trade fair participation environment for all exhibitors and trade visitors.¹⁹⁰ For MMI, it

¹⁸⁹ Ibid, p.3

¹⁹⁰ Pyongyang International Technology and Infrastructure Exhibition (PITE). 2008. *About the Organizers*. (24/6/2008). Available at :<<http://www.pyongyang-itie.com/aboutmmi.asp>>.

was one of the most experienced and renowned company which based in Germany and has tremendous experience on organizing trade fair and having an extensive global networks. The first PITE started in 2002 but unfortunately it was halted to organize from 2003 to 2005 as the United States issued an economic sanction on North Korea and no foreign investors was interested in participating in this exhibition. But, since 2006, while through the revised North Korean policy with the European countries, the European Union Chamber of Commerce in Korea and its European liaison office the EU-Korea Industrial Cooperation Agency tried to re-build its cooperation with North Korea and re-generate the momentum by organizing the second PITE in 2006.

Throughout the exhibition, North Korea was closely cooperated with the European companies and provided an essential platform on displaying the latest equipment, technology and machines to be used on building, mining, transport, communication and chemical industry.¹⁹¹ According to the interview with Jean-Jacques Grauhar, chairman of the EUCCK North Korea Committee, in Korean Times, he said that the current nuclear crisis is not favorable for this exhibition. The U.S. is also exercising pressure on some European companies to limit their contacts with North Korea, in line with their strategy to isolate the country. Europe, however, will not bend to U.S. pressure, and 23 out of 25 EU member states have full-fledged diplomatic relations with North Korea, some of them even have embassies in Pyongyang. The EU's engagement policy of North Korea still prevails, and this exhibition can be considered an important part of it.¹⁹² More importantly, he also

¹⁹¹ Pyongyang International Technology and Infrastructure Exhibition (PITE). 2008. *Fair at a Glance*. (24/6/2008). Available at :< <http://www.pyongyang-itie.com/fairsatglance.asp>>.

¹⁹² Jettle, Jan. 2006. *EU Promotes Pyongyang Trade Fair*. (24/6/2008) Available at :< http://search.hankooki.com/times/times_view.php?term=north+korea++&path=hankooki3/times/lpage/

added that German companies showed a particular interest in the exhibition because experience in dealing with East Germany has shown them that companies can successfully do business with one another even if they operate in countries with different political systems.¹⁹³ Therefore, it is by no means that the ideas which developed during the EU-DPRK Workshops stimulated the North Korean government further their economic exchange and technical development with the European counterparts, and therefore contributed to the increasing numbers and extension of policy cooperation between the North Korean companies with the European groups, especially on ICT sector.

2.2. The strengthening of the small and medium enterprises (SMEs) in mining industry

In North Korea, since the establishment of the socialist regime in the early 1950s, the state policy on economic development was primarily followed the textbook of communism which collectivization and heavy industry played a significant role in driving the momentum of the national economy. During that period of time, the national economy of North Korea can be characterized by state-ownership of means of production; centralized economic planning, command, and monitoring of political attitudes; and an emphasis on military development.¹⁹⁴ The economic system is designed to be self-reliant and closed, with poor performance and inflexible to accommodate the change happened since the collapsed of the Soviet Union in the late 1980s.

biz/200606/kt2006062218073911900.htm&media=kt>.

¹⁹³ Ibid

¹⁹⁴ Nanto, Dick K. and Emma Chanlett-Avery. 2008. The North Korean Economy: Leverage and Policy Analysis. *Congressional Research Service (CRS) Report for Congress*, p. 4.

So far, on one hand, the Pyongyang government strictly controlled over both the natural and capital resource which state dominated economy remains unchanged in the last few decades. However, on the other hand, the North Korea government also disallowed the local people to violate the *juche* ideology and experience any market and capitalist mechanism, such as trade, firm establishment and open transaction. Therefore, the banning of private enterprises was the predominant strategy which any departure of socialist economy was disallowed.

Mining, which is a labor and capital intensive industry, needs a huge amount of government investment and support. It is by no means that mining in North Korea has been playing an important role in leading the domestic economy in the last few decades. As the collapsed of Soviet Union and the cut off of the assistance, North Korea government has been developing its heavy industry in mining which in order to compensate to the lost of energy and electricity supply from the Russian counterparts. The mining sector was an important sector of North Korean economy. Mining sector produced a wide variety of minerals for domestic consumption by the defense (military), manufacturing, and utility industries. Production of such minerals as coal, copper, iron ore, limestone, lead, magnesite, steel, tungsten, and zinc was essential for the country's industrial and military establishments, as well as for export to earn foreign currency. On the basis of North Korea's industrial structure in 2004, the mining sector accounted for about 8.7% of North Korea's gross domestic product¹⁹⁵. North Korea has significant resources of iron ore, which are located at Chaeyong, Hason, Komdok, Musan, Sehaeri, Songhung, Tokhyon, Tokonsong, Toksong, and

¹⁹⁵ Bank of Korea. 2005. *Gross Domestic Product of North Korea in 2004: Bank of Korea Press Release* (31/5/2004). Available at :<http://www.bok.or.kr/contents_admin/infor_admin/eng/home/pree/pree/infor/NKGDP20042.doc>

Unryul.¹⁹⁶ Most of the large-scale mining and mineral-processing enterprises in North Korea were owned and operated by the central government. In this circumstance, private (domestic) or small-medium enterprises was not welcomed to invest in this sector.

But, one of the most important turning points of the mining industry in North Korea took place in December 2006 as the DPRK government passed the ‘Small-Medium Coal Mine Development and Management Regulations’, which allowed any business, organizations, or association, regardless of size or function, to go into the mine development business in an attempt to encourage development of underground resources, even gold mining-rights were given to some business.¹⁹⁷ In particular, the strengthening of self-supporting operations and autonomous management, along with other market economy measures, have been deemed new steps forward in line with the July 1 Economic Reform Measures passed in 2002. Until this moment, North Korean authorities have controlled the whole responsibility for the development of coal mines, and with their focus on large-scale enterprise, non-productive organizations and groups were not granted development rights. Small and medium-sized coal mines have been run by regional government, or similar large-scale enterprises determined by the Central Party, People’s Public Peace Office, People’s Armed Forces Agency, and other similar high-powered, main-stream agencies.¹⁹⁸ But, since the passing of this regulation, from art groups to press organizations to small-scale food processing plants, anyone with the wherewithal to

¹⁹⁶ United States Geology Survey (USGS). 2007. *2005 Minerals Yearbook: North Korea*. U.S.GS, June 2007, p.1

¹⁹⁷ The Institute of Far Eastern Studies (IFES). 2007. DPRK Takes Measure to Reel in Mining Rights. *NK Brief No. 05-7-4-1*. Available at :<http://ifes.kyungnam.ac.kr/admin/upload_file/nk_brief/NK_Brief_NK_070411_1.pdf>.

¹⁹⁸ The Institute of Far Eastern Studies (IFES). 2006. Independent Coal Mines Get Legal Backing in DPRK. *NK Brief No. 06-12-14-1*. Available at :<http://ifes.kyungnam.ac.kr/admin/upload_file/nk_brief/NK_Brief_NK_061214.pdf>.

independent undertake the development and operations of coal mining may do so.

In regards to the above policy change, as we recalled what the ideas brought during the EU-DPRK Workshop in 2005, there was a quite hot and interactive discussion on the creation and development of small and medium-sized enterprises (SME) presented by Dr. Bruno Dallago, and the discussion on how to modernize the state-owned enterprises and how to enhance the ownership of SMEs on one of the working group discussion. The ideas which presented and discussed provided a stimulating factor that drove the North Korean government to focus not only on the large-scale enterprises development, but also to the SMEs. In his presentation, he presented several arguments which positively support the existence of the SMEs in a transition economy, including SMEs can assist the large state-owned companies in sustaining the economic system of socialism, SMEs can attract additional foreign financial investment and accumulate professional knowledge and entrepreneur skills while vertically integrated with large firms, and SME can play a balancing role which between the detrimental effect of socialism and the positive side of capitalism. Concurrently, during the working group discussion, the North Korean officials raised several questions which are related to how to establish SMEs and the importance of property right in sustaining the economic growth during the transitional period. In the discussion, the officials were further reinforced with the idea that there was no contradiction between centrally planed economy with the creation of SMEs and the essential role of it during the transformation. Therefore, it's indeed important for the ideas which developed by the European economic expert in providing an authoritative advice to the North Korean officials and shape the policy change in the SMEs development in the late 2006.

2.3. Policies to attract FDI

In regards to economic development, in recent decades, foreign direct investment (FDI) plays an important role in the long-term economic development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. FDI also has an important role in enhancing exports.¹⁹⁹ Therefore, most of the countries in our world started to develop its policy instruments which tried to attract foreign investors by offering ever more generous incentive packages.

North Korea, one of most isolated economy in the world, tried to reform its economy in recent years due to the poor performance of the domestic economy. Since the mid 1990s, North Korea was facing a consistent drought and bad harvest which contributed to a great famine. Since then, the government was forced to open its economy by inviting foreign assistance, including aid and food, to approach the North Korean official and started to build up the foreign contacts. However, even though the North began to diverse its foreign contact by inviting foreign capital investment in recent years, still not too many countries would favor to invest their money into the North Korean economy because there was a far lack of legal protection for the foreign investors. Thus, due to a huge sense of investment insecurity, the total amount of foreign investment in North Korea was far left behind than the other transition economies.

¹⁹⁹ Javorcik, Beata Smarzynska. 2002. Does Foreign Direct Investment Increase the Productivity of Domestic Firms? In Search of Spillovers through Backward Linkages. *World Bank Policy Research Working Paper No. 2923.*, p.1. Available at: <<http://ssrn.com/abstract=337740>>.

2.4. Legal development

The insufficient of legal protection on foreign investors was one of the most important reasons why there was a limit number of companies to invest in North Korea. Because of this, which coincide with the ideas which provided by the two European economic experts in the EU-DPRK Workshop, direct the reform motive and momentum to the development of a concrete and friendly legal system which aimed to develop North Korea as an investor-friendly country. This policy channel was materialized when according to a 49-year-old official said in an interview with the Yonhap News Agency after returning from his seven-day trip to North Korea for an economic workshop, he said that he heard from North Korean officials that they are now working on a legal framework to attract more foreign direct investment.²⁰⁰

In the EU-DPRK Workshop in 2004, Dr Rudiger Frank presented his idea on the topic 'successful strategies to attract and retain foreign direct investment', which stressed that a secure and transparent environment would provide a attract spot for foreign investors. According to his comment, a secure environment means that there is a clear regulatory guidelines and rule setting which the investors would understand it easily. Moreover, any transactions related to trade have to be free and the host country has to provide protection against arbitrary expropriation. On the other hand, a transparent market area, means the macroeconomic datas like GNP, trade statistics, inflation rates, are openly accessible and therefore trust would be built up in consequence.

Similar idea was raised in the same session by Mr. Luca Birindelli. In the topic named as 'The role of foreign legal experts in fostering FDI ', he highlighted the idea

²⁰⁰ Duk-kun, Byun. N. Korea Eager to Take Steps to Reform its Economy: EU Official. *Vantage Point Interview 27, 10 (October 2004)*. Available at: <http://www.koreascope.com/bbs/board.php?bo_table=E200_0010&wr_id=1112>.

of opening of service sector, in particular the legal services sector, has proved to be a successful tool to increase the quality of an investment friendly environment. Through legal activities, communication between foreign investors and the local authorities becomes easier since it promotes the exchange of knowledge and expertise and finally creates confidence. These ideas were valuable for North Korean officials and directed their mindset to formulate similar policy outcome in recent years.

2.4.1. Case one: *Pyongyang Law Office*

On January 11th, 2005, the North Korea newspaper announced that the government is going to start a law office called ‘The Pyongyang Law Office’, which is an independent corporate body, has started its operation to provide services for the solution of legal matters arising in various sectors.²⁰¹ Through the news interview with Mr. Ho Yong Ho, the chief of the office said that his office provides legal services upon application and assignment by foreign-invested businesses (equity or contractual joint ventures and wholly-foreign owned enterprises) and Koreans in overseas as well as by the institutions, establishments, organizations and citizens at home.²⁰²

As for the categories of services, it introduces the laws and regulations of the DPRK on foreign-related matters, Kaesong Industrial Zone²⁰³, Kungangsan Tourist Zone²⁰⁴ and others. It also holds legal consultations concerning the selection of the

²⁰¹ Korean Central News Agency (KCNA). 2007. *Pyongyang Law Office Opens*. (11/1/2007). Available at :<<http://www.kcna.co.jp/item/2007/200701/news01/12.htm>>.

²⁰² Ibid

²⁰³ Kaesong Industrial Zone (KIC) is an inter-Korean joint cooperative industry plant which located 10km next tot the Korean Demilitarized Zone.

²⁰⁴ Kungangsan Tourist Zone (also named as ‘Diamond Mountain’) is an inter-Korean collaborate tourist project spot.

investment project, establishment and operation of foreign businesses, dissolution and bankruptcy of businesses, concerning documents of legal nature including feasibility study reports and memorandum of association, concerning trade, transport, finance, insurance, intellectual property, real property and concerning civil law relations between corporate bodies, corporate body and individual and so on. Legal services are offered on the principle of fairness, promptness and legality and on the basis of the facts, laws and contracts, while the service performer is held accountable before the party concerned and the law for the service offered. Foreign investors are well advised to consult the office prior to their investment in the DPRK, and enhance their sense of security on their investment.²⁰⁵ Therefore, by adopting the idea raised by the European economic experts, the North Korean government in accordance established a legal office which handles legal issues which related to foreign investment and set up clear rules and guidelines for the investors which provided higher sense of security for investment.

2.4.2. Case two: Birindelli & Associati

Other than the Pyongyang law office, the North Korean government also affected by the idea raised by Mr. Luca Birindelli and allowed the Birindelli Law Company to be established in North Korea in June 2005, which is the first North Korea-Italy joint law office. It was the first international law firm to receive the official authorization by the Government of the DPRK to establish an office in Pyongyang. It assists foreign clients in the DPR of Korea in all relevant areas of commercial and civil practice.²⁰⁶

²⁰⁵ The Center For International Cooperation for North Korean Development (ICNK). 2007. NK Recap: January 2007. *NK Brief No. 07-2-6-1*. Available at: <http://ifes.kyungnam.ac.kr/admin/upload_file/nk_brief/IFES_FORUM_070206_1.pdf>.

²⁰⁶ Vantage Point. 2005. North Korea-Italy Joint Law Office Established in Pyongyang. *Vantage Point* 28, 7. Available at:

Mr. Luca Birindelli, the President of Birindelli & Associati, participated in the EU-DPRK Workshop in 2004. During the conference, he presented his idea on advising the North Korean officials which inviting several number of foreign legal company to assist the legal transformation in North Korea would play an essential role in this aspect. In his major idea, he exchanged his idea with the North Korean counterparts in the conference that through some joint legal cooperation, the local authorities can understand the legal, economic and operational framework of foreign country as well as their valuable experience, which help them to draft new laws and regulations. As deeply impressed by the idea, the North Korean officials actively invited the Birindelli Law Company to set up its new branch offices in Pyongyang which primarily help them to handle possible trade disputes between North Korea and foreign companies, as the total volume of trade is increasing in recent years.

2.4.3. Law on the Assessment of Environmental Effects in North Korea (Mar. 10, 2006)

In reference to the idea presented by Dr. Rudigar Frank in the conference, a favorable market environment would be one of the most important pre-conditions for foreign investment. In order to safeguard this marketable environment, some legal measures should be taken so as to protect the environment from any illegal destruction. Therefore, after receiving the idea brought by the economic expert, the North Korean authorities announced the enactment of the Law on the Assessment of Environmental Effects, which would to prevent environmental destruction and its subsequent damages, and to protect clean environment. In particular, Article 1 stipulated that North Korea further develop exchanges and cooperation with other

countries and international organizations in the assessment of national environmental effects.²⁰⁷

In the last few years, the DPRK's environmental problems are getting worse simply because of the indifference government policy on environmental protection, the imbalance industrial policy which over-emphasis on the heavy industry and the developmental-priority mentality. Because of that, North Korea's environmental challenges are deteriorating which badly affect in four aspects: unsustainable food production; water pollution and treatment; mining wastes and industrial waste dumps; and deforestation and desertification.²⁰⁸ These environmental hazards not only affect the environment itself, but also posed a threat on foreign investment as more and more foreign investors are getting more aware of the environmental situation in North Korea and this intensified the eagerness of the North Korean government to address it promptly.

From the Law, it has two characteristics, one is Article 4 stipulated the strict enforcement of the Law, including the cessation of development and construction works on its territory when negative environmental effects ensue, and secondly it put emphasis on international cooperation with other countries and international organizations. In understanding the reason why the North Korean government issued such a law, it is expected that it aimed to improve the North's international image and receive funds as well as equipment from international organizations for the resolution

²⁰⁷ Ministry of Unification. 2006. *Major Development: The Enactment of the Law on the Assessment of Environmental Effects in North Korea* (Mar.10, 2006). Available at: <<http://www.unikorea.go.kr/english/ENK/ENK0201R.jsp>>.

²⁰⁸ Hayes, Peter. 1994. *Enduring Legacies: Economic Dimensions Of Restoring North Korea's Environment. Paper presented at the Fourth Annual International Symposium on the North Korean Economy Center for North Korean Economic Studies, Korean Development Institute October 18, 1994.*

of environmental problems arising from its reform and opening process in a future.²⁰⁹ So, the enactment of the law can be seen as a great contribution from the community member who proclaimed a favorable market environment would attract more foreign investment.

2.5. Trade fairs

Besides improving legal system, holding trade fairs is another possible way to increase and attract foreign investment. Trade fairs represent a significant opportunity to enhance brand and product visibility, promote new and existing products, generate leads and drive sales. In addition, show participation enables to learn about industry trends, gain competitor insights, make key industry contacts, and further solidify relationships with current customers. Therefore, holding trade fairs would maximize the potential to widen the business opportunity with the foreign companies.

During the EU-DPRK Workshop in 2004, Ms. Nicole Risse, the director of the Europe-Korea Foundation and the Korea-Europe Technology and Economy Services (KETES), raised the importance of trade fair in her presentation named as 'Establishing information networks between potential trade partners and training projects'. She suggested that the DPRK should organize trade fairs with the European companies and therefore business network will be built. However, sending out the idea is not enough for building up business network between Pyongyang and the European counterparts. Other than her idea, the European Business Association (EBA) also provided substantial efforts on building this business relationship. So, in the idea

²⁰⁹ Ministry of Unification. 2006. *Major Development: The Enactment of the Law on the Assessment of Environmental Effects in North Korea* (Mar.10, 2006). Available at: <<http://www.unikorea.go.kr/english/ENK/ENK0201R.jsp>>.

that she gave in the conference and incorporate with the business efforts, the North Korean counterparts to start to organize more and more trade fairs, either in Pyongyang or Europe, in order to build business opportunity.

2.5.1. The Pyongyang Autumn International Trade Fair (PAITT) 2006-2008

Deeply influenced by this idea, the DPRK Chamber of Commerce re-opened the 'Pyongyang Autumn International Trade Fair', which started on 2002 with the help of the European Business Association (EBA) but was stopped to organize due to the tense diplomatic atmosphere and nuclear crisis took place in 2002. In 2006, with the strong demand of both sides to re-open the event, they began to organize this trade fair again since 2006.

PAITT is a trade fair which advertises foreign products at Pyongyang and helps develop trade contacts among companies, regularly in autumn, as requested by business people at home and abroad. In the trade fair on last year, 18 European companies are participating at the European booth organized by the (EBA) in Pyongyang. This has been the largest ever participation of European companies at a trade fair in Pyongyang. The 18 EBA-member companies come from 6 European countries and are engaged in banking, IT, pharmaceuticals, maritime transportation, railways, courier services, industry, mining, solar driven water pumps, energy saving technology, commodity inspection, cosmetics and other consumer goods and general trading. Some already operate in joint ventures with North Korean partners or found other forms of close business cooperation, particularly in the fields of banking, mining,

internet services, logistics, software development and pharmaceuticals.²¹⁰ From 2006 onward, these autumn trade fairs which are held in Pyongyang annually are making a positive contribution to strengthening the economic cooperation among nations and regions and promoting their development. So, derived from the idea which raised by Ms Nicole Risse in the last EU-DPRK Workshop, it's of utmost importance that it direct the North Korean officials' attention and policy idea and successfully rebuilt the trade fair in 2006.

3. Conclusion

In recent years, we witnessed a slow progress of economic reform in North Korea after the July 1 economic reform packages. Coincide with the limited reform; the general economic performance in North Korea was also stagnated while there was a small famine happened in 2006 and the authority re-called the food assistance from the United Nations in 2007. These facts showed negatively that North Korea is encountering another economic challenge which hampered the confidence on her economic reform and therefore decided to take some steps backward from previous reform in recent years.

Ironically, taking economic reform is an inevitable task for the DPRK authority to handle as the more it isolated the poor of her national economy. According to Mr. Ulrich Niemann, the ex-resident representative of the FNF, commented that the DPRK has no official intention to transform their center-planned economy to market economy as there has been no comprehensive reform process since then. But, he said

²¹⁰ North Korean Economic Watch, 2007. *EBA Press Release: Pyongyang International Trade Fair*. Available at: <http://www.nkeconwatch.com/category/economic-reform/pyongyang-international-trade-fair/>.

that North Korea wants to improve its economy, as they're looking for solutions also from the systems abroad.²¹¹

However, with carefully studied on transition economies, the North Korean official fully understand that it's unwise to simply and directly copy from the reform model from the Chinese gradualist approach as the domestic economic structure and the international circumstances are different from that period of time. Therefore, they decided to widen their scope of knowledge by asking for the help from the European counterparts, which is the FNF. The FNF subsequently invited numbers of economic experts, who has knowledge or experience in working on East European socialist transformation policy, to provide ideational support toward the North Korean officials and eventually directed their policy outcomes.

After digesting the ideas and formulated respective reform plan and policy, what we can understand and conclude is that North Korea is neither choosing the reform model from China, Europe or even Vietnam completely. Since the North Korean government decided to input the market mechanism into its isolated and self-protected economy, the general strategy would be pragmatically selected different reform programs which aimed at sustain the stability of the regime and power. Therefore, from what Mr. Ulrich Niemann said in an interview, when experts from the countries like Poland, Czech Republic, and Hungary discussed experiences from their own countries in the seminar, one of the things we learned is that every country has followed its own path, and this was also the message to the North Korea participants that nobody is imposing to them anything. They have to find their own way.²¹²

²¹¹ Dong-shin, Seo. 2006. German Foundation Links Europe. *Korean Times* 10-22-200. Available at: <http://www.fnfkorea.org/new_eng/opinion_view.asp?num=10>.

²¹² Ibid

Conclusion

In Chapter 4 and 5, we have discussed how the ideas promoted by the economists, who were invited by the Friedrich Naumann Foundation (FNF) during the two EU-DPRK Workshops which held in 2004 and 2005, developed and transferred through various institutionalized communication channels and networks and eventually shaped the mindset of the North Korean officials.

In accordance to the findings of this study, we found there is a concrete linking between the ideas raised by the European economists with the real policy outcome in North Korea. This shows positively of the scholars-to-officials network is functioning transnationally from Europe to North Korea and proves this non-governmental channel is successfully built and provide a substantial policy impacts on the economic reform in North Korea. Eventually, this community also addressed simultaneously on the policy uncertainty among the North Korean officials and directed the policy path in the future.

Other than the findings and the analysis, the implications of this research should as well be paid attention to. In the main focus of this chapter, there are several aspects of theories of literatures will be re-examined. First, the theoretical debate between the two different worlds: scholars and policy-makers, will be re-visited as in order to provide a conclusion on whether is it possible to bridge the two worlds together?

Secondly, the theory of epistemic community and transnational advocacy network will be re-visited and by referring to the case in this thesis, some details and

variables can be illustrated as a supplementation of this theory.

Thirdly, as economic reform is constructed as one of the variables in this thesis, the current situation in North Korea demonstrates an essential case study on bridging and mixing the theoretical debate on shock therapy and gradualism. Hence, in this part, a close evaluation on this debate will be re-examined.

Besides, another implication of this research is that it breaks the general belief that China is the sole player which is eligible in shaping and influencing the political and economic development in North Korea. After the findings in this research, it reveals European Union (EU), or several European countries, can also exert their political and economic power by using non-governmental channel in order to shape the policy direction in North Korea. Hence, this finding provides a great implication.

1. Research Implications

1.1. Revisit the debate between scholarship and policy-making in Political Science

The relationship between the theory and practice of foreign policy is a recurrent theme in foreign policy analysis. Importantly, this topic is also discussed in a very rich literature focusing on domestic public policy. Unfortunately, there is very little interaction between the two bodies of literature. This may be due to the development of separate academic communities with their own journals and conferences, but it is hardly an excuse.

Should academics work closely with policy practitioners, or should they resist the

‘siren song of policy relevant’²¹³? There are three separate perspectives can be identified in this debate: a bridge-building perspective; an independence perspective; and a critical perspective. They debate on whether for or against the dialogue between scholars and policy makers in a normative sense, and whether the gap between the worlds of academic and policy making should be bridged, partly bridged or hard to be bridged.

1.1.1. Bridge-Building Perspective

The bridge-building perspective claims that scholars not only can but have an obligation to contribute to practice.²¹⁴ Undoubtedly, this kind of obligation is much more than a philosophical one, but also related to some practical reasons as governments spend huge amounts of money on social science research, as they do in the U.S.

The normative position from this perspective holds that scholars have an obligation to do more than just teaching and writing for their students and academic colleagues. They also have to interact directly with policy makers, to take an interest in world affairs, and to ensure their research is communicated to those who need it: the practitioners of foreign policy.²¹⁵

Moreover, the fact that the foreign policy professionals generally think of their actions as independent of the academic world, whilst the inverse is rarely true.

²¹³ Eriksson, Johan and Bengt Sunderlius. 2005. Molding Minds That Form Policy: How to Make Research Useful. *International Studies Perspectives* 6, 52

²¹⁴ Weiss, C. 1977. *Using Social Science Research in Policymaking*. Lanham: Lexington Books, pp. 3-4.

²¹⁵ Stern, E.K. and B. Sundelius. 2002. Crisis Management Europe: An Integrated Regional Research and Training Program. *International Studies Perspectives* 3: 85.

Financially and materially, academics are far from being virtually autonomous, and are professionally dependent on the practitioners to provide the materials on which they can construct their theories as well as their empirical studies.

In addition, the bridge builders claim that interactions between scholars and practitioners may provide valuable input for research.²¹⁶ In Webb's study, British IR scholars responded to a question about the value of interaction between scholars and practitioners. Forty-seven percent responded that "insight into the policy-making process" was more important than influence.²¹⁷ Therefore, being a participating observer has its obvious advantages.

In working out the bridge, the 'expertise' must be connected to particular problems of the policy itself. In George's study, he identified three types of knowledge that can help policymakers find the right strategy for influencing adversaries.²¹⁸ The first is to conceptualize strategies, expose their internal logic, and deduce what elements in theory such strategies appear to acquire. The second is generic knowledge, derived from systemic comparison of past cases, which offers conditional generalizations about the strengths and weaknesses of various chains of strategic logic. Third is the knowledge that can help policymakers develop more nuanced and individual (actor-specific) models of how others will behave.²¹⁹

²¹⁶ Rosenau, J. and B.M. Sapin. 1994. Theory and Practice in Foreign Policy-Making: Academics and Practitioners: The American Experience. In M. Girard, W.D. Eberwin and K. Webb, eds., *Theory and Practice in Foreign Policy-Making: National Perspectives on Academics and Professionals in International Relations*. London: Pinter Publisher. pp. 131-133.

²¹⁷ Eriksson, Johan and Bengt Sunderlius. 2005. Molding Minds That Form Policy: How to Make Research Useful. *International Studies Perspectives* 6, 53.

²¹⁸ Zelikow, P.D. 1994. Foreign Policy Engineering: From Theory to Practice and Back Again. *International Security* 18: 146.

²¹⁹ Ibid

1.1.2. Independence Perspective

The independence perspective argues that scholars and practitioners are varied not only by nature, but also theoretically. In this academic debate, scholars should keep a certain distance from the policy makers.

Scholars, on one hand, are usually described, not always in a complimentary fashion, as being too academic and all too obsessed with writing papers and monographs that will appeal a few other specialists, and be largely incomprehensible to anyone else.²²⁰ Practitioners and policy makers, in contrast, accused scholars of using academic jargon languages and theoretical models to complicate processes that are quite straightforward. It seems that they are totally irrelevant and hard to understand.

One of the reasons why to restraint the engagement in policy-relevant affairs is that the worlds of scholarship and policy making are perceived as incompatible.²²¹ On the one hand, policy makers seek power rather than knowledge, and their work is dictated by short rather than long time frames. However, intellectual studies are often focusing on theoretical building and intellectual debate, which takes a long period time to conduct. Therefore, in contrast to the bridge function assumption, scholars argue that the more we strain for policy relevance, even if only to justify our existence in the eyes of society at large, the more difficult it becomes to maintain intellectual

²²⁰ Bercovitch, Jacob, Kevin Clements and Daniel Druckman. 2005. On Bridging the Gap: The Relevance of Theory to the Practice of Conflict Resolution. *Australian Journal of International Affairs* 59, 2: 134.

²²¹ Hill, Christopher. 1994. Academic International Relations: The Siren Song of Policy Relevance. In Christopher Hill and P. Beshoff. eds., *Two Worlds of International Relations: Academics, Practitioners and the Trade in Ideas*. London: Routledge. pp.16-19.

integrity.²²²

One of most harmful effects of bridging scholars and policy makers together is that scholar will lost their theoretical, normative and historical perspectives when they are moving too close towards the policy makers. Whenever there is some drastic issue happened, media will urge and demand for 'expert' commentary on those current affairs. In regards to this, scholars will be crazy to work for doing interviews, writing journal articles and books. Undoubtedly, scholars in this sense will become journalists, contemporary historians and even pressure groups, while forgetting their academic mission to work on an independent long-term perspective.

There is another problem to do with the professional role and status of the academic scholars.²²³ In the concept of agenda setting, if policy makers are involved, it is so easy to be diverged, controlled and decided on the themes and questions of the research. Then, the research that scholars conducted will no longer be regarded as academically independent and relevant. So, in this point of view, it would be a matter of sustaining and defending the role of ivory tower academic or surrender it.

To conclude, the major value of this part is to demonstrate there was an unsolvable theoretical debate on whether the cleavages between the role played by academic scholars and practical policymakers and the research ideas initiated by the scholars in the ivory towers are practically useful for policymakers when they're handling diplomatic issues. Indeed, within this theoretical debate, there are two sets of scholars who believe oppositely. One side believes that the ideas promoted by the

²²² Eriksson, Johan and Bengt Sunderlius. 2005. Molding Minds That Form Policy: How to Make Research Useful. *International Studies Perspectives* 6, 54.

²²³ Ibid.

experts are practically useful for policymakers as academic models and ideology still play an important role in affecting world politics. However, in the contrary, some scholars think that there is a wide gap between the academic experts and their ideas with the policymakers as the interest and aims between them are basically different and unbridgeable.

Ironically, this theoretical controversy shows that it seems to us there is an unbridgeable gap between the academic scholars and the policymakers. However, in my dissertation, one of the core values is to bridge this two polar together and assess the importance of the ideas promoted by the academic circles to the government officials. In the above discussion, it mentioned there are several positive signs that the distance between academic scholars and policymakers is not that far in theoretical sense. In normative position, scholars are normative-driven to provide research-based knowledge and digested information toward the officials. In ideation factor, academic scholars may assist the policymakers in analyzing the present political or economic deadlock by drawing back from history and cases from other countries. Hence, these two perspectives are highly relevant on my dissertation.

In my dissertation, one of the major problems that I'm going to address is how to bridge the ideas raised by the economist from the expert groups in Europe with the policy outcomes issued by the North Korean officials who are working on the economic reform programs. In general understanding, there is an inherited disadvantage of the communication with the communist regime with isolated nature. In addition, in terms of policymaking in North Korea, it's widely believes that all the decision making is centralized by Kim Jong-il and it's nearly impossible for the outside forces to pose any influence on the regime. However, in the major arguments

in this dissertation, it designed to break the myth that the academic scholars can be influential in shaping the policymakers' mindset and policy outcomes. Therefore, in the following parts of this dissertation, a deeper analyze will be presented and justification will be provided on how the ideas brought by the economists eventually affected the policy outcomes in North Korea.

1.2. Revisit of the theory of epistemic community and transnational advocacy network

In our study, we define the concept of epistemic community based on Haas's observation and description. As mentioned by Haas, he described an epistemic community as a network of professionals with recognized expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue-area.²²⁴ Four important characteristics distinguish an epistemic community: shared normative and principled beliefs; shared causal beliefs; shared notions of validity; and a set of shared common practices associated with the problem within the particular issue area. Epistemic communities provide crucial information by interpreting problems and offering solutions to those problems. These communities and their regimes are co-constituted, meaning that the identity commitments and history of the regime necessarily impact the expert group and vice versa. The knowledge and suggestions offered by the community reflect their co-constituted nature, as its information and suggestions are informed by its own broader worldview.²²⁵

²²⁴ Haas, Peter. 1997. ed., *Knowledge, Power, and International Policy Coordination*. Columbia, S.C.: University of South Carolina Press. p.3.

²²⁵ Ibid

In addition, he described that there are several preconditions for the existence and emergence of the expert group. First, uncertainty provides the foundation force for the community to establish as the government officials are lacking of objective and authoritative knowledge and information about the existing crisis. In addition, for the experts and professionals side, as they carry the normative and principled belief that motivate themselves to organize the epistemic network and formulate the connected channel in order to provide information for the government officials. Hence, from these perspectives, it's assumed that the professionals will be self-motivated and driven by normative consensus to establish the community.

However, from the case that we studied, it demonstrates that the members of the expert group are mobilized by the NGOs, which initiated the political and economic dialogue and controlled the discussion agenda. In Chapter 4, we found out that all of the academic scholars and diplomatic representatives from the European countries are invited by the Friedrich Naumann Foundation (FNF). That means even though the scholars are driven by normative sense that they should formulate an expert group so as to provide ideation support and technical assistance toward the North Korean officials, and simultaneously they gathered a group of scholars from the academic field, it's insufficient to further this cooperation and consensus into a practical and tangible community. In this case, it serves a representative case that a likely or preliminary stage of epistemic community can make use of the tactic by transnational advocacy network which NGO can play an important role in organizing and mobilizing the scholars together and provide their authoritative knowledge advice towards the government officials transnationally. Therefore, by referring to this specific case, it shows that there is a room of collaboration of theory of epistemic community and transnational advocacy network in understand the transnational

political advocacy network building.

1.3. Re-examine the debate between shock therapy and gradualism

In the analytical part of this thesis, the economic reform of North Korea was borrowed to perform as a case study to illustrate the different paths of the transition economies. In Chapter 1, we acknowledge that there is an academic debate the two divergent paths of economic liberalization: shock therapy and gradualism. The essence of the shock therapy approach means the government pursues a radical economic transformation from a centrally-planned economy into a market economy within a short period of time, without any institution preparation and always coincides with the political reform and regime change. On the contrary, gradualism takes an opposite approach to transform the economy by using the 'soft-landing' approach, as the transition of economy follows a gradual step from a government-controlled one into a market economy. However, under this approach, a more carefully program design will be offered and without any significant political reform will be resulted.

This long and heat theoretical debate lasted for more than a decade since the collapse of Soviet Union in the early 1990s. However, in referring to the economic reform in North Korea, it demonstrates that the North Korea neither follow the pathology suggested by the scholars from the shock therapy discipline nor support whole-heartedly to the gradual step as a building a market economy. What we can describe from the North Korea economic reform is the idea of the third road.

After the introduction of the economic reform in 2002 in North Korea, practically became the core value of the economic reform. According to the North Korean

position, what are they following is the idea described as ‘practical socialism’ or selective and pragmatic opening strategy. In the idea of practical socialism, it implies building up the economy in a way that provided people with actual benefits while maintaining socialist principles, and embraces contemporary technology.²²⁶ In this framework, North Korea argues that it is a goal pursued according to collectivist rather than individualistic principles. In addition, North Korea also claims that the reform is not an acceptance of a free economy, but a means of ‘strengthening the creativity guaranteed by the planned leadership of the state’.²²⁷ Therefore, this position explains the role of the economic reform in a socialist framework, and seems to emphasize the legitimacy of Kim Jong Il’s regime. As a result, under the clarification of the North Korea authorities, they argue that every reform steps taken by the North Korean officials is not aim at dismantling the current system, but simply a modification. So, in practical socialism, the focus is on a practical application of the socialist framework.

Moreover, the reform executed in North Korea was not only served as a means to sustain the credibility and legitimacy of the ruling power of the Kim Jong-Il’s regime, but also reveal a mixture of the spirit of shock therapy and gradualism. As discussed in Chapter 2, we reviewed that reform strategies started from 2002 to recent years. To sum up all the reform programs in North Korea, it conglomerates the ideas of radical and mild reform. First, in the July 1 Reform in 2002, North Korea pursued a radical, revolutionary and rapid reform strategy. Inside the reform programs, it covered several important aspects of the economy, such as price, law, and agriculture. More than that, it directed all the policy changes simultaneously and rapidly. These

²²⁶ Yong Chul, Chung. 2004. North Korean Reform and Opening: Dual Strategy and ‘Silli’ (Practical) Socialism. *Pacific Affairs* 77, 2: 285.

²²⁷ Ibid, p.302.

strategies showed the government officials was deeply affected by the idea of shock therapy and decided to grasp the spirit and perform according to it.

Secondly, since the reform programs promoted and executed for a short period of time, the side-effect of the economic reform contributed to an adverse impact on the regime stability and even worsen the economic crisis in North Korea. Hence, since 2005, North Korean government eventually decided to abolish the reform programs and re-installed the government control over the economy again, such as the re-announcement of the public distribution system (PDS). So, what the government did was followed directly on the idea of gradualist approach, which the government still played a monitoring and censoring role in designing the reform programs and carefully evaluated and assessed the reform effectiveness. Hence, according to the findings in this thesis, we can conclude that North Korea is following a path of economic reform which is performing a mixture of shock therapy and gradualist approach.

1.4. Re-evaluate the importance of EU on North Korea

In this study, one of the main foci is the relations between EU and North Korea. By looking back to the historical development of North Korean economy, in Chapter 2, we realize that North Korean economy was long to be regarded as one of the most isolated and closed economies in the world. However, the economy was forced to open up since the cut off of all kinds of economic assistance and aids from Soviet Union and other socialist regimes. Since then, China has been developing as the major player in protecting the economic development and reform in North Korea and providing numerous types of humanitarian assistance to the Pyongyang government.

From several aspects of discussion, it's unsurprisingly that there are quite a numbers of reasons why China should protect and sustain the existence of the North Korea, such as the ideological similarity and old partners and to avoid the flooding of North Korean refugees into the China's soil. Thus, in general belief, China is the sole tutor and protector on North Korea's national interest as China demonstrates as the 'big brother' of North Korea.

However, in our findings, it's usual to under-estimate and undermine the importance of some other alternative power which performs a similar or replaceable function like China on North Korea. From our discussion in Chapter 4 and 5, it's essential to bring-in the new variable in affecting the North Korea's economic reform in recent years, which is the European Union (EU). In our study, as we reviewed the general trend of development between the EU and DPRK relations, it shows that EU started to formalize their diplomatic relations with North Korea since 2000, and this relationship was highly developed and institutionalized. Inside their relationship, economic cooperation, such as trade, economic assistance, food aid and technological transfer, occupies a significant degree of influence in the construction of the mutual relations. Thus, in this thesis, one of the implications and significance is to break the mis-understanding on underestimating the role of EU on affecting the economic reform in North Korea.

Furthermore, this thesis also serves the purpose to break another mis-understanding of the role of non-governmental organizations (NGOs) in the economic reform in North Korea. In the study of international relations, the importance of Non-State Actors (NSAs) was long to be undermined and marginalized as the predominant approach of state as the only important actor in the world politics

occupied the level of analysis. This situation was even polarized as the Northeast Asian region was overwhelmed and dominated by historical legacy, sovereignty conflict and territorial disputes. So, NSA was not regarded as an essential factor in shaping state-to-state relations.

But, as mentioned in Chapter 3, the NGOs which are providing economic assistance and economic knowledge transfer to North Korea provided a counter-example on this issue. The Friedrich Naumann Foundation (FNF) demonstrates a positive and constructive example on bridging the knowledge level cooperation between EU and North Korea. FNF is one of the leading NGOs in Germany and established its branches in Korea in recent years. They kept a close and friendly relationship with North Korea by organizing several training camps, tours and workshops for the North Korea officials so as to enrich the economic knowledge level for them to handle the economic reform and crisis in North Korea. The ideas that they promoted during the two EU-DPRK workshops eventually influenced the mindset of the decision-makers in Pyongyang authority and formulated the policy outcome in regards to these. Hence, it is important re-evaluate the role played by EU in changing the economic policy in North Korea and in addition the significant role performed by the NGOs in North Korea.

2. Conclusion

In this Chapter, we have concluded there are several political implications in this thesis. In fact, expert group acts as one of the most critical factors in shaping the economic reform policy in North Korea. Hence, from the case that we discussed in this thesis, it's important to re-visit the theory itself and found that there is a new

amendment to his theory as the role of NGO which initiates and mobilizes the community can be a significant factor shaping the emergence of the expert group.

It is true that the North Korea is building a new reform pathology with its characteristics, which is different from Soviet Union or China. However, no matter to what extent do they North Korea open its economy, the major calculation of the government and the meaning of reform is nothing more than to serve the regime stability. Thus, even though the European NGOs have been providing and suggesting numerous reform ideas to the North Korean officials in various circumstances, a real and comprehensive reform or even an institutional change should take more time to occur and implement. Hence, what we can expect is that through opening up gradually in North Korea, international forces and actors will be able to shape and change the mindset of the officials gradually and eventually a mild but comprehensive institutional change in North Korea will be result someday in the future.

Appendix 1

Participants of the two EU-DPRK Workshops

1. Dr. Dusan Triska (Czech Republic)

Dr. Dusan Triska is currently a professor of the University of Economics, Prague. He was the former Deputy Minister of the Czech Federal Ministry of Finance and a key architect of the economic reform process in the Czech Republic that was led by Vaclav Klaus. One of his famous policies and important contributions to the economic transformation policy in Czech Republic were the idea of voucher system. Regarding privatization, his essential message was the need for speed. In line with a number of other first generation reformers in transition countries, he was convinced that a rapid, mass privatization was essential for the restructuring development.

He published several academic books and journal articles related to privatization and development, such as “*Investment Funds as Intermediaries of Privatization*” and “*Optimal Decisions in Markets and Planned Economies*” etc.

2. Dr. Geir Helgesen, Nordic Institute of Asian Studies (Denmark)

Dr. Geir Helgesen is currently a Senior Researcher at the Nordic Institute for Asian Studies, Copenhagen. He obtained his master and doctoral degree in Cultural Sociology from the Copenhagen University in 1989 and 1993 respectively. His research focus is on Korean society and politics. Other than academic affiliations, he is also a Senior Advisor to the Danish Ministry of Foreign Affairs on Korean matters

and a Leading coordinator of the Eurasia Political Culture Research Network (EPCReN).

Moreover, Dr. Helgesen also published and edited various academic books and journal articles which are related to North European countries and Korean affairs, such as he edited a book called “*Politics, Culture and Self. East Asian and North European Attitudes*” in 2005 and written a book called “*Good Government, Nordic East and Asian Perspectives*” in 2002.

3. Professor Dr. Ari Kokko (Sweden)

Professor Dr. Ari Kokko is currently the professor of the Economics Institute of Japanese Studies (EIJIS), Stockholm School of Economics, and he is also presently working as a visiting fellow in the Fulbright Economics Teaching Program at the HCM Economics University in Vietnam since 2003 and was invited as one of the board members in the Swedish International Development Cooperation Agency (SIDA) since 2000.

In his academic teaching circumstances, he primarily teaches on subjects are related to International Trade Theory, Trade and Factor Mobility, International Trade Policy and Industrial Policy, The International Business Environment, The Economics of Foreign Direct Investment, Microeconomics and Economics and Business in East and Southeast Asia.

As a leading scholar in the field of economic liberalization, he published numerous academic books and journal articles which are highly relevant to foreign

direct investment (FDI) and technological transfer and theirs' effect on the host and recipient countries. In addition, he has written a large numbers of articles which are specifically related to the liberalization experience in Vietnam and its possible lessons for other countries.

4. Mr. Luca Brindelli, Brindelli e Associati Law Firm (Italy)

Luca Birindelli is currently the managing partner of Birindelli e Associati, an Italian law firm with a strong international orientation and a distinct focus on the Asia-Pacific region. The core activities of the firm in Asia are in the People's Republic of China, Hong Kong S.A.R., Singapore and Vietnam.

Luca Birindelli, a Fulbright fellow, is a graduate of the Law School of Rome University and obtained a Master degree from New York University's School of Law. He is a member of the Milan Bar and was admitted as a qualified foreign lawyer to practice in the People's Republic of China, Vietnam, Singapore and Hong Kong S.A.R. Currently, Luca Birindelli is Honorary Consul General of the Republic of Singapore in Rome.

Over the years, Luca Birindelli has developed an extensive practice throughout the Asia-Pacific region, advising clients on numerous legal matters, particularly in connection with manufacturing, infrastructure and telecommunication projects. He is also the author, amongst other publications, of '*A Short Guide to Doing Business within the Japanese Legal Framework*', published by Mediocredito Centrale, the leading Italian medium-term credit institution.

5. Dr Tony Michell (United Kingdom)

Dr. Michell is currently the CEO of the Korea Associates Business Consulting and the Managing Director of the Euro-Asian Business Consultancy. Prior than that, he has about 28 years' experience working in, observing, analyzing economic and political developments as well as the business operating environment in Korea and North East Asia. He is the founder of both Euro-Asian Business Consultancy (EABC) and Korea Associates Business Consulting (KABC), and advises foreign companies on business strategy for Korea and also works with local Korean companies and government departments on international issues.

He has also authored various publications on Korea and North-east Asia including regular reports on *chaebol* reform, success factors for foreign firms investing in Korea. Furthermore, he also teaches at the KDI School of Public Policy and Management in Korea.

6. Prof. Ruediger Frank, University of Vienna (Germany)

Professor Ruediger Frank is currently the Professor of East Asian Economy and Society at the University of Vienna and Director of the Vienna School of Governance. He was an Adjunct Professor at Korea University and the University of North Korean Studies in Seoul, and an affiliate researcher at the Modern East Asia Research Center in Leiden. In his academic background, he has spent one semester as a language student at Kim Il-sung University in Pyongyang in 1991-1992 with support from the German Academic Exchange Service; his last visit to North Korea was in June 2007. His current research focus is the transformation of socialist systems in Europe and East Asia. He has further published on South Korean politics and on the political and

economic system of North Korea.

He published various books which are related to Korea affairs, such as “*The GDR and North Korea: The Reconstruction of Hamhung 1954-1962*”, “*Regulation in the Republic of Korea: Characteristics, Reforms and the Telecommunications Sector*”, and “*Democratic People’s Republic of Korea: Politics and Society at a Crossroad*”.

7. Mr. Abu Selim (UNDP)

Mr. Abu Selim is currently the Country Director for the DPRK in the United Nations Development Programmes (UNDP). Before this appointment, he was the Senior Deputy of Resident Representative in Sri Lanka and successfully finalizing the Agreement for the Micro-Enterprise Development Project for women in Matara District, in the presence of a representative of the External Resources Department of the Ministry of Finance and Planning.

8. Ms. Nicole Risse (KETES)

Ms. Nicole Risse is the Director of the Europe-Korea Foundation and the Korea-Europe Technology and Economy Services (KETES). As an activist in Korea domestically, she oversaw the academic and cultural exchange programmes by the Europe-Korea Foundation. In addition, in 2004, she also launched a scholarship program for North Korean students and experts to study various subjects in Europe, such as economics, business and international law.

9. Mr. Ulrich Niemann (Program Director for Korea, the Friedrich Naumann

Foundation)

Mr. Ulrich Niemann was the Resident Representative of the Friedrich Naumann Foundation in Korea from 2003-2007. He was the Director of the Department People-to-People Exchanges of the Asia-Europe Foundation in Singapore from 1997-2002 and worked as a senior advisor on European Politics and on Economic Cooperation and Development Policy in the German Federal Parliament from 1994 to 1997. Mr. Niemann was the Deputy Head of Division for Economic Policy at the Chancellor's Office in Germany from 1992-1994 and Member of Division for Regional Development at the Federal Ministry of Economics from 1991-1992. Academically, Mr. Niemann is an expert of economic policy and international cooperation.

10. H.E. Radinck Van Vollenhoven (Netherlands/Dutch EU-Presidency)

Mr. Radinck J. van Vollenhoven was the Dutch EU Presidency and the ambassador of Netherlands to the North Korea from 2004 to 2006. As a diplomatic representative in Korea, he promoted largely on the importance of civic groups' social roles in the road of consolidating democracy and supported on the overseas aids implementation under civic groups' leads have been effective and efficient in reducing global poverty.

Also, he worked deeply on the communication with the North Korean government. In 2005, he met Mr. Kim Yong Nam, president of Presidium of the DPRK Supreme People's Assembly and conducted a diplomatic visit to Pyongyang.

11. Mrs. Castillo Fernandez (European Commission)

Mrs. Castillo Fernandez is currently the Desk Officer for Korea at the External Relations Directorate of the European Commission. She is responsible for collecting information and data about the development of North Korea. In addition, she detailed the economic developments taking place and EU activity in food and humanitarian aid to the DPRK.

Workshop in 2005

1. Professor Dr. Ari Kokko (Sweden)

For details, please read the previous part about the Workshop in 2004

2. Dr. Dusan Triska (Czech Republic)

For details, please read the previous part about the Workshop in 2004

3. Mr. Max Van Der Sleen, ECORYS Group (The Netherlands)

Mr. Max Van Der Sleen is currently the chair of the board of management in ECORYS Group. ECORYS is an international group of companies specializing in economic and social development. They work with clients in the public, private and not-for-profit sectors and apply our expertise to improve the economic and social conditions of: The countries in which we live and have our offices, The European Union and its neighboring states, and Developing countries, especially for poverty alleviation

In 1999, he was appointed Manager of the Macro & Sector Policies Division. In 2001, he was appointed as member of the ECORYS Netherlands Board of Directors and in July of the same year he was appointed chairman of the Board of Directors. In January 2005, he was made a member of the ECORYS Group Board of Management. As chairman of the Board of Managers of the ECORYS Group, Max van der Sleen will succeed Hugh Williams, who is retiring.

4. Dr. Andrea Szalavetz, Institute for World Economics (Hungary)

Dr. Andrea Szalavetz is currently the Research Director of the Institute for World Economics of the Hungarian Academy of Sciences. In his main research fields, he is interested in the microeconomic factors of competitiveness, the role of FDI in the modernization of the Hungarian economy regional development policy and regional patterns of economic development.

In regards to his academic publications, he published books and articles which are related to economic reform, restructuring, privatization, and the role of foreign capitals in assisting the local reform development, for example, he wrote a book named as '*Technology Transfer, Innovation and Modernization: The Example of German-owned Hungarian Engineering Firms Weltforum Verlag*'.

5. Dr. Jacek Mironski, Warsaw School of Economics (Poland)

Dr. Jacek Mironski is currently the head of Business Communication Department at Warsaw School of Economics (SGH) in Warsaw (Poland). In his academic background, He graduated from the Foreign Trade Department at SGH and his Ph.D.

thesis is called '*Mass Media Marketing Through Magazines*'. Currently his research and teaching interest focuses on Organizational Behavior and Management.

Other than academic affiliation, he conducted many training and consulting projects for Polish and foreign companies, e.g. Canal Plus, PZU, Bosch, Samsung. He was also employed by Procter & Gamble Polska and worked as a Director of the Promotion Department in the biggest Polish radio station – Radio Zet. For academic publication, he is an author of many papers, articles, textbook and books, e.g. '*Power and politics in enterprises*'.

6. Prof. Dr. Bruno Dallago, University of Trento (Italy)

Bruno Dallago is the professor of Political Economy and Comparative Economic Systems at the Faculty of Economics in the University of Trento since 1988. He received his PhD in Economics at the Hungarian Academy of Sciences in 1980. Currently, he is also the Director of the Masters in Local Development for the Balkans and the author and editor of numerous books and articles and has been a consultant to many international organizations.

In his academic publications, he published a lot of books which are related to economic reform and liberalization in the Eastern Europe, for example the '*Economic Planning in Transition*', '*Socio Economic Development and Planning in Post-Socialist and Capitalist Societies*' and '*Economic Institutions, Markets and Competition: Centralization and Decentralization in the Transformation of Economic Systems*'.

7. Dr. Brigitta Kauers, Federal Ministry of Finance (Germany)

Dr. Brigitta Kauers is currently the Head of Division at Germany's Federal Ministry of Finance. She is one of the leading experts in Germany in the field of economic reform and privatization.

8. Prof. Dr. Michael P. CUDDY, National University of Ireland (Ireland)

Professor Michael Cuddy is currently the professor of the Department of Economics from the National University of Ireland. He has been a visiting professor at the Universities of Aix-en-Provence, Rennes, Bonn and Arizona. He obtained his doctoral degree at North Carolina State University. His research has been mainly in the fields of regional and rural development, agricultural economics and transition economics.

Other than academic field, he has worked as an economic adviser and consultant for all of the ministries and agencies in Ireland with responsibility in regional, rural and local development and in numerous international agencies and institutions including the EU Commission (various Directorates) and the EU Social and Economic Committee and European Parliament, the World Bank, the United Nations and OECD.

He published various books in the field of economic transformation, such as '*The Rural Economy: Value Added Creation, Market Sustainability and the Limits of Policy Measures*' in 2005. Other than books, his academic work has been published in journals such as *The Economic and Social Review*, *Social Studies*, *The European*

Review of Agricultural Economics, The Journal of Economic Development, The Journal of International Economics and The International Statistical Review.

Appendix 2

Debate between shock therapy and gradualism approach in economic transformation

After the end of the Second World War, the path of development in our world was divided into two divergent roads. With the lead of the United States, we had the capitalist bloc which widely promoted the value of free market economy and the importance of private property ownership. Simultaneously, with the pilot of Soviet Union (USSR), we also had another set of value of communist bloc which vigorously promoted on government planned economy and public ownership of property. This opposite path drove the political and economic development for more than 3 decades.

However, this situation was dramatically altered in the mid-1980s, just months after the new Soviet leader, Mikal Gorbachev, taking the power in 1985. He conducted a package and a series of economic and political reforms in the Soviet Union. This great and shock transformation de-stabilized not only the ruling and authority capacity of the Communist party in the Soviet Union, but also continued to spread into other Socialist regimes in Eastern Europe as well, including Poland, Hungary, Romania and Yugoslavia etc. The reformist and citizens in these countries followed the path of reform in the USSR and the later Russia, which pursued a quick, shock and complete transformation of its economy from a central planned economy to market-oriented economy without any pre-condition and reservation.

When comparing with the Russian (or East European) transformation model, there was another set of path of economic reform which was developed by China and

Vietnam since the late-80s and early-90s. The communist leaders in those countries developed their form of reform policy after learning and absorbing the problems and lessons from the USSR and Eastern Europe. So, the transformation strategy was naturally and philosophically rooted in a gradual, evolving and incremental approach to transform the economy.

There are an enormous number of contributions published on the issue of transformation, but only a few of these explicitly start from a theoretical viewpoint.²²⁸ So, in the study of transitional development, traditionally, there was a lack of theoretical debate within it. But there was a dramatic shift of focus of analysis during the late-80s when the Soviet Union and China began to implement their restructuring policy. A great debate developed between the idea of shock therapy, which was pursued by the USSR, and the gradualist reform approach, which was the reform strategy performed by the Chinese government.

1. Shock therapy

The idea and essence of this radical approach on economic transformation can be illustrated primarily in this quotation:

“Oh those advisors, those advisers!” he said. “If we had listened to them we’d still be in Turkey: we should not have made peace, and the war would not be over. Always in haste, and the more haste the less speed...” (War and Peace, Tolstoy, 1968, pp. 895-6)

²²⁸ Hoen. Herman W. *The Transformation of Economic Systems in Central Europe*. Cheltenham, UK: Edward Elgar. p. 3.

The discussion of the shock therapist on the economic transformation was not to examine the existing institutional structures and to think of how to change them to reach the goal, but rather to focus on the ways, the methods, and the strategies to replace the structures entirely²²⁹ within a given a short period of time through a revolutionary and rapid change of the economic structure from a socialist nature economy into a capitalist one.

There were a wide range of academic scholars who supported this transformation approach, such as Jeffrey Sachs, David Lipton, Anders Aslund, Maxim Boycko, Andrei Shleifer, Robert Vishny, and Andrzej Rapaczynski.

1.1. Agent analysis

By using the analytical framework of the structural and agency debate to analyze the shock therapy approach, on one hand, the agency side believes a rational agent shapes the design of the economic reform, rather than the historical process or institutions controls the environment and direct the reform pathology.²³⁰ Therefore, in influencing the economic transformation, agency should play a much more effective and essential role the entire programs than the structural factors.

It is believes that government officials, or technocrat, has precise knowledge of how to construct successful economic institutions. Concurrently, there is also an assumption that the technocrat's creations will have a powerful and salutary influence

²²⁹ Lipton, D. and J. Sachs. 1990. Creating a Market Economy in Eastern Europe: The Case of Poland. *Brookings Papers on Economic Activity* 1: 75.

²³⁰ Murrell, Peter. 1993. What is Shock Therapy? What Did It Do in Poland and Russia? *Post-Soviet Affairs* 9, 2: 113.

on economic development. Therefore, agency, in this sense, is expected to have an absolute power on designing and establishing the formal structures, such as new institutions, new laws, or credible policies. After that, these structures shape the path of development of the society and these can be removed and abolished whenever the agent decides to re-establish a new structure. Hence, in this perspective, agent dominates the reform path and shapes the societal development.

1.2. Programs analysis

The nature of these reforms is well-known and the essentials would not vary widely between countries. At their center is the quick conversion of the state sector into a decentralized, market sector, through swift and comprehensive policy changes that give shock therapy its name. This is necessarily followed as soon as possible by forced privatization.

1.2.1. Price liberalization

The shock therapy economists are in favor of an adjustment approach based on prices, which involves an instant and immediate jump to the market price level. With the abolition of state-controlled price and the idea of transitional price, it will make available resources in the budget to finance social programs, including welfare. Moreover, the un-distorted price (more close to the market level with higher price) also encourages the development of new enterprises and competition because under these conditions profits are possible to be made.

1.2.2. Privatization

Privatization and financial restructuring are portrayed as one of the most important steps in the entire economic reform programs. Once transformation took place, the dominant form of ownership had to be private, and the dominant form of organization especially for large enterprises should be a corporate structure, as experienced in a mature market economies.

The importance of a private ownership economy is simply that it constitutes the private (individual) control on individuals' own property, equity and capital, which can be freely transferred, transacted and exchanged. Once a private economy has developed, a new class of capitalists will also emerge consequently as they are going to represent the interests of capital.²³¹ At the same time, firms can also be able to control their equity and profit and reduce their obligation on social budget constraint.

1.2.3. Institutional design

The aim of the transition was not only to elucidate the unreasonable distortions of the state allocation of resources, but also to establish the appropriate institutions in organizing the new market mechanism for allocating resources. During the transitional period, as the shock therapists argued, the market was not left un-controlled and based completely on self-interested individual behavior. However, it had to develop some defined rules, regulations or even institutions in order to protect the property rights and obligations of all individuals within the economy.

Markets require a definite assignment of entitlements and procedures guaranteeing the execution of contracts. Transition economies, as shock therapists

²³¹ Sachs, J. 1993. *Poland's Jump to the Market Economy*. The MIT Press, Cambridge, MA. p. 29.

define, have to set up appropriate laws and institutions, such as clear property rights and well-protected rules of contracts, to protect the benefits which associated with the market process. Therefore, without laws, there can be no property rights and without these there can be no real economic stabilization or development.²³²

1.2.4. Monetary policy

Financial stabilization was extremely essential and urgent because it was a prerequisite for social stability and for many other reforms.²³³ As a result, a well-defined and organized monetary policy was central in achieving financial development.

Central Bank plays an important role during the financial restructuring. An effective central bank should be able to control the money supply and regulate several individual (regional) banks. The very first thing that central bank has to handle is to stabilize the currency and ensure hyperinflation will not happen. Through controlling the money supply, central bank should not unconditionally finance the central government's budget and safeguard the interest rate.

1.2.5. Fiscal Policy

Since the budget is the main source of money creation, and hence inflation, the reduction of the budget deficit was at top of the agenda of any economic reform

²³² Aslund, A. 1995. How Russia Became a Market Economy. Brooking Institute, Washington D.C. p.14

²³³ Sachs, J. 1996. The Transition in the Mid Decade. *American Economic Review Papers and Proceedings* 86, 2: 131.

plan.²³⁴

In regards of this, there were several ways in order to lower down the budget deficit during the transformation process, such as contracting military expenditure, extinguishing subsidies, eliminating enterprises investment financed by government expenditure and reducing state administration.

From some of the studies on this issue, it is widely accepted that the budget deficit is directly linked to the inflation rate, as the higher the budget as a percentage of GDP, the higher the inflation rate. In this sense, the most important step towards monetary stabilization is, in most cases, not really monetary policy, but fiscal policy. Therefore, a balanced budget, which is promoted by IMF and other international organizations, can substantially reduce the deficit and negative effect in the transformation process.

1.2.6. International trade

The shock therapy approach is in favor of complete liberalization of the international trade sector by currency devaluation to the black market level and removal of trade barrier.²³⁵ Radical trade liberalization can install a successful and real foreign competition and this experience will be fruitful for domestic market development.

²³⁴ Fedorov, B. 1992. Monetary, Financial and Foreign Exchange Policy. In A. Aslund. ed., *The Post-Soviet Economy. Soviet and Western Perspective*. New York: St. Martin's Press. p.105

²³⁵ Marangos, John. 2002. The Political Economy of Shock Therapy. *Journal of Economic Surveys* 16, 1: 58.

Since the transition economies were dominated by all-powerful monopolies with economic and political power, competition with foreign firms would critically reduce the power and monopolistic control of them. Moreover, with the invitation of foreign firms' investment, it stimulates not only export growth, but also supply of technology, managerial expertise, organizational techniques and financial capital.

In addition, a freely floating exchange rate should also be developed in order to reduce inflation and maintain the currency can be exchanged unrestrictive.

It is believed that the analysis used by the shock therapy model is regarded as the neoclassical economic analysis. Consequently, freedom, market-oriented and privatization are the core study in this perspective.

1.3. Ideas analysis

First, in order to build a fair, free and privatized society, a shock therapy policy should be implemented to increase the power of market and at the same time decrease the control of state as soon as possible. Inside this rationale, economists believe that planning and markets are not compatible coordinating mechanisms and planning can only eventually lead to coercion.

Second, the promotion of private property is the foundation of economic freedom and an essential ingredient for the efficient operation of the market. A society with economic freedom will involve in providing law and order, institutions, providing fiscal and monetary balance, infrastructure to protect the environment, and promote

public health and education and the safety net.²³⁶

Third, the shock therapy model highlights the interdependent, mutually supportive and interactive character of economic relationships, and as such reforms should be introduced simultaneously. Piecemeal changes cannot be possible in bringing a concrete, comprehensive and constructive reform for the transition economies. As one Polish economists argued, “you don’t try to cross a chasm in two jumps”²³⁷, the reform program that they pursue is known and described as “shock therapy” and “big bang”.

The underlying rationale in this point is that every step in this reform should be carried out as quickly as possible, without any hesitation and simultaneously. Based on the shock therapy model, any restructuring cannot take place without an effective price system; an effective price system cannot exist without a convertible currency; a convertible currency is impossible without opening the economy to international competition; international competition cannot be effective without restructuring.²³⁸ Therefore, in the idea of this school, they believe the above sequence can be handled simultaneously with logical sense. By looking at those countries carefully, they were all experiencing such severe macroeconomic imbalances and they could not afford to reform slowly. So, ‘they need a strong dose of medicine quickly’²³⁹ and the macroeconomic stabilization and microeconomic reforms must go conjointly.

Fourth, the gradual process of transition is undesirable because it ignores the

²³⁶ Aslund, A. 1997. *Russia's Economic Transformation in the 1990's*. London: Pinter, p.12.

²³⁷ Marangos, John. 2002. The Political Economy of Shock Therapy. *Journal of Economic Surveys* 16, 1: 62..

²³⁸ Marangos, John. 2002. The Political Economy of Shock Therapy. *Journal of Economic Surveys* 16, 1: 62.

²³⁹ Thomas, V. and Wang Y. 1997. East Asian Lessons from Economic Reforms. In W.T. Woo, S. Parker and J.D. Sachs, eds., *Economies in Transition. Comparing Asia and Europe*. Cambridge, Massachusetts: MIT Press. p. 217.

links between reforms, increased transition costs, damaged the credibility of the process, restricted individual behavior and allowed the formation of special interest groups.²⁴⁰

Within the discussion of economic reform, almost most of the reform procedures within the transition period will be inter-linked and irreversible. The deliberate separation will eventually distort the whole restructuring process, and even contribute to the failure.

Moreover, in order to keep the state control on the pricing system and international trade barrier, the gradual reform strategy will only encourage activities such as speculation, diversion of state supplies and corruption.²⁴¹ Due to the partially liberalizing reform, gradualism will only result in a badly operating and controlling market, refrain foreign investment and uneven distribution of wealth. Therefore, in their belief, they regard a slow reform as a failure in any sense.

2. Gradualism

On the contrary, there is another set of approach which studies how socialist countries can transform their economy into a capitalist one, other than using a radical or so called 'big bang' approach, by a gradual and incremental approach. The gradual school emphasizes the need to clear the way for radical steps through intermediate ones, so as to minimize the economic and social costs of the transition.²⁴² Thus, in

²⁴⁰ Aslund, A., Boone P.P. and Johnson S. 1996. How to Stabilize? Lessons from Post-Communist Countries. *Brooking Papers on Economic Activity* 1: 272.

²⁴¹ Aslund, A. 1995. How Russia Became a Market Economy. Brooking Institute, Washington D.C. p.14

²⁴² Ofer, Gur. 1992. Stablizing and Restructuring the Former Soviet Economy: Big-Bang or Gradual

terms of every aspect, gradualism and shock therapy approach are in the polar position of the argument standing.

In the basic understanding on gradualism, one of the most obvious ideas is that during the economic reform, there should be some kinds of sequence and procedure which formulate an order gradually. For example, sequence of price liberalization should accompany a certain form of privatization and to what extent is progress on one front a necessary condition for proceeding on the other. In each case, in addition to the internal economic logic of each sequence, account must also be taken of its likely effects on production and unemployment, on economic pressures exerted on the population, and on the political endurance under such pressure.²⁴³ Therefore, the macroeconomic stabilization was a major element in the structural reform on every steps of reform program.

2.1. Agent analysis

One of the most argumentative debate in this approach is that whether elites in a government can 'lead' and 'occupying' the reforms and under valuing the power and effectiveness of the system itself. In the shock therapy approach, it is believed that technocrats in the regime take an essential role in formulating the whole transformation policy, and predict all the instability and radical possibility that can happen during the process. However, this raises the question of whether an economy can be effectively reformed through top-down changes devised by elite.

Sequencing? In Michael Keren and Gur Ofer, eds., *Trials of Transition: Economic Reform in the Former Communist Bloc*. Boulder, San Francisco and Oxford: Westview Press. p. 84

²⁴³ Ofer, Gur. 1992. Stabilizing and Restructuring the Former Soviet Economy: Big-Bang or Gradual Sequencing? In Michael Keren and Gur Ofer, eds., *Trials of Transition: Economic Reform in the Former Communist Bloc*. Boulder, San Francisco and Oxford: Westview Press. p. 84

The behavior of economic agents is a product both of present incentives and of the historical and social processes that have shaped these agents. Any vision of how change may best be accomplished must take into account of the fact that economic agents accumulate knowledge in a learning-by-doing process that is shaped by their historical experience.

By using the law, the ruling government can effectively control over the society, even the law is a kind of imposition on the society. However, forceful action led by the elite cannot guarantee a stable and societal-oriented reform. Before adopting a shock therapy approach, the elites inside the government will undeniably seek to revise and address some of the economic problems (e.g. low productivity, corruption) in their socialist economy. However, it will not be wise to adopt such kind of approach to transform the economy as they are not trying to build a new (capitalist) economy with addressing the satisfaction of the societal need. Thus, due to the ignorance of the social need, the shock therapy approach is proved to be unsuccessful in bringing a real transformation on the socialist economy.

2.2. Progress analysis

Another basic idea related to the gradualist and evolutionary approach is that the progress of reform is not to be judged by the simple criterion of how many formal measures are introduced and how many businesses are nominally privatized.²⁴⁴ The massive changes that are needed are inevitable given the deep internal forces for change within society.²⁴⁵ The question then is how productive a government can be in

²⁴⁴ Murrell, Peter. 1993. What is Shock Therapy? What Did It Do in Poland and Russia? *Post-Soviet Affairs* 9, 2: 120.

²⁴⁵ Papava, Vladimer. 2005. On the Theory of Post-Communist Economic Transition to Market.

forcing changes. Undoubtedly, the economy cannot be shocked into some new economic behavior without the consideration of the society itself. Institutional change is an intrinsically slow process, highly dependent on circumstance, and efficient only if it responds to real economic needs. Therefore, it requires a deep, slow and gradual process in order to understand and pacify what society needs and how to build a stable and peaceful mechanism for the transition to capitalism.

In addition, scholars who proclaim a gradualist approach on economic transformation emphasize that there is a need to balance the central government finances before undertaking other reforms. This debate centers on the order of liberalization of the trade and capital accounts, with the majority scholars favoring the opening of the former before the liberalization of the latter in order to avoid undesirable capital flows. Therefore, a planned sequence of reform should be implemented precisely before any action to be taken, as contradicted to the idea on working on all kinds of aspect of reform simultaneously and instantly.

Another argument in favor of gradualism is the nonexistence or precariousness of a “safety net” to smoothen the effects of massive redundancies of labor during the process of economic transformation.²⁴⁶ This safety net is to be understood as a public good needed to reduce costs such as losses of human capital. In regards of this, a gradual process to minimize the fluctuation on the labor market is of utmost importance to provide a stable transition of the economy.

Furthermore, the viewpoint of gradualists is substantially opposing to that of the

International Journal of Social Economics 32, 1/2: 82.

²⁴⁶ Martinelli, Cesar. 1993. *Essays on Political Economy of Economic Reform. Dissertation submitted for the degree Doctor of Philosophy in Economics, University of California.* p.28

shock therapist, especially on the view of the historical legacies. According to the gradualists, all kinds of economic systems are shaped by its historical characteristics. The current systems that we notice will not be affected only by the government officials who promote the approach of shock therapy, but at the same time also affected by the originated situation of a country specifically. For example, any vision of how change might best be accomplished must take into account of the fact that economic technocrats accumulate in a learning-by-doing process that is shaped by their historical experience.²⁴⁷ Likewise, the designation of the socialist institutions within a state will also be described as an institutional legacy which shapes and shadow the development path of the transitional policy, which can be understood as a 'path-dependency' policy.

Adherents to the gradualist approach believe that each phases of transformation should be carefully completed before the next step is undertaken. Often they are not in favor of adopting foreign laws; they think that only the development of a country own legislation can lead to optimal laws which take into account of the specific national circumstances. Liberalization should proceed step by step. They recommend that industrial enterprises should remain state-owned, but with an increase in the freedom to make decisions. Other stabilization policies are also advocated, such as government intervention on price controls, a dual track of pricing system forcing enterprises to meet production quotas but allowing them to sell above-the-plan output at market price, foreign exchange and investment regulations.

²⁴⁷ Murrell, Peter. 1993. What is Shock Therapy? What Did It Do in Poland and Russia? *Post-Soviet Affairs* 9, 2: 119.

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